

May 21 1991
reflects
years
of the Financial
that result

Country	City	Exchange	Rate
Australia	Sydney	ASX	1.5000
Canada	Toronto	TSX	1.0000
France	Paris	Euro Stoxx	100.00
Germany	Frankfurt	DAX	100.00
Italy	Milan	FTSE	100.00
Japan	Tokyo	Nikkei	100.00
South Korea	Seoul	KOSPI	100.00
Spain	Madrid	IBEX	100.00
Sweden	Stockholm	OMX	100.00
Switzerland	Zurich	SIX	100.00
Taiwan	Taipei	TSE	100.00
Thailand	Bangkok	SET	100.00
UK	London	FTSE 100	100.00
USA	New York	Dow Jones	100.00

EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

CENTRAL ASIA

Russians come home to Tajikistan

Page 2

D 8523A

Thursday May 23 1991

World News Business Summary

South Korean premier quits after series of protests

Ro Jae Bong, South Korea's prime minister, resigned after a wave of anti-government protests filled the streets with the largest demonstrations in Korea since the introduction of democracy in 1987. Page 6

Airport talks fail

Law talks between Britain and China on Hong Kong's plans for a new HK\$100bn (£12bn) airport ended without agreement after five days of negotiations. Page 6

Mrs Mandela held

South African police arrested Winnie Mandela and leaders of the African National Congress (ANC) Women's League for obstruction during a demonstration in support of political prisoners. Page 6

300 held in Tunisia

Tunisia government said it had failed a coup plot by Islamic fundamentalists and arrested 300 people, including 100 military personnel. Page 6

Solidarity strike

Solidarity workers went on strike in industrial region of Poland as the union held an unprecedented day of protest against the economic policies of the government it steered to power. Page 2

Children released

Indonesian police freed a group of children locked up in a packaging factory for up to three years, according to local newspaper reports.

FBI exports arrest

US federal agents arrested a man accused of violating Washington's ban on military exports to Libya by allegedly shipping night vision goggles without state department approval.

Mid-east accord

Elis Hrawi, Lebanon's president, signed a treaty with Syrian leader Hafez Assad as part of the Arab-brokered Taif peace pact to end 16 years of civil war.

Yeltsin wins backing

Russian federation president Boris Yeltsin won formal approval for a powerful executive presidency, a job he is expected to start elections next month. Candidates, Page 2

Police accused

South Korean prosecutors accused 11 riot police of assault during the funeral of a student who was beaten to death by police last month.

Escobar surrender

Pablo Escobar, Colombia's most-wanted drug lord, has pledged to surrender to authorities within 15 days, a Roman Catholic priest who held talks with him said. Page 6

Delors in Japan

Jacques Delors, president of the European Commission, started his official visit to Japan by expressing concern about the EC's widening trade deficit with Tokyo. Page 4

Standoff in Mexico

Immigrants controlled a Mexican border prison as dozens of police and marines waited outside for orders to enter five days after 18 prisoners were killed in a battle between rival drug gangs.

Seven life terms

Seven Muslim fundamentalists were sentenced to life imprisonment for their roles in an attack on the Tunisian ruling party's offices in which an employee was killed.

Iraqis leave Dahuk

Iraq agreed to withdraw its military and police forces from the northern provincial capital Dahuk and allow coalition forces to enter. Up to 150,000 residents, mainly Kurds, may return to their homes.

Volvo and Renault depressed in first quarter

Volvo, the Swedish automotive group, yesterday reported continuing operating losses for the first three months of the year. While Renault of France, its strategic partner announced severely depressed profits. The grand alliance announced a year ago between the two companies, one of the most ambitious and complex restructuring operations under way in the European auto industry, is taking shape at a time when the financial fortunes of both companies are at a low ebb. Page 15

ELECTROLUX, the world's largest white goods manufacturer, suffered a 19 per cent decline in its profits (after financial items) for the first quarter of the year, with the result falling to SKr414m (587.5m) compared with SKr511m for the same period of 1990. Page 15

SONY CORPORATION, Japanese electronics maker, lifted annual consolidated pre-tax profits 16.3 per cent to Y284.59bn, on continued strong international demand, Page 14

COFFEE: Second position future prices for robusta closed lower in London. Dealers said selling by funds remained the main force behind the fall. Near July sailed through the recent low of \$258 a tonne and then \$250, where there were fewer stops than anticipated, until closing just above 10-week lows at \$230 a tonne. Page 28

MARKETS: At 1 pm the Dow Jones Industrial Average was down 2.01 at 2,904.07. FAZ index rose 13.39 to 695.18 at mid-session and the DAX closed 30.29 higher at 1,647.89. Section II

CURRENCIES: At the London close the dollar had improved to DM1.7215 from DM1.7115, to Y138.00 from Y137.40, to Sfr1.4925 from Sfr1.4825, and to FF5.9450 from FF5.9075. Sterling fell 1 cent to \$1.7265. It also eased to Y258.25 from Y258.50, but was unchanged at DM2.9725, while rising to FF5.0655 from FF5.0650 and to Sfr1.5920 from Sfr1.5910. The pound's index lost 0.1 to 91.9. Currencies, Page 26

FIAT of Italy has agreed to cut its stake in one of France's largest car-battery producers from 75 per cent to 10 per cent, in order to win European Commission approval for a merger with the French company Alcatel-Alsthom's battery subsidiary. Page 2

KLM Royal Dutch Airlines, announced an annual provision net loss of Fl 680m (\$325m), compared to the previous year's Fl 340m net profit. Nearly half of the loss was due to a provision taken to help restructure the carrier, reduce its annual operating costs and prune its workforce. Page 15

IFIL, one of the main holding companies of Italy's Agnelli family, raised net group profits by 38.5 per cent to L114.4bn (900m) last year from L82.6bn in 1989. Page 16

WASHINGTON has told Brussels it intends to lodge, under Gatt procedure, a new complaint over EC subsidies for Airbus, the European Commission said. Page 3

THOMSON Consumer Electronics (TCE), the French state-owned maker of TV sets and audio/video products, has entered a joint venture to make television tubes in Poland. Page 3

FT STATISTICS: We regret that some prices could not be updated for this edition because of a technical fault. The statistical services affected are the World Stock Markets, and Chief Price Changes yesterday for Paris and Frankfurt.

Silence and anger over killing followed by riots and violence

Gandhi's widow to lead party

By David Housego in New Delhi

MRS Sonia Gandhi, the Italian-born widow of Mr Rajiv Gandhi, India's former prime minister, was yesterday elected president of the Congress party in the wake of her husband's assassination on Tuesday.

News of her appointment caused amazement in New Delhi as the nation reacted with stunned silence and anger to Mr Gandhi's death. Streets remained deserted in many large cities throughout the country, but 10 people were killed in riots and violence that particularly shook the southern states of Tamil Nadu, the scene of his assassination in a bomb attack, and Andhra Pradesh.

Curfews were imposed in several cities in the north and heavily-armed troops patrolled Delhi in an effort to prevent a repetition of the bloodshed that accompanied Mrs Gandhi's death in 1984.

The Congress leadership, in choosing Mrs Gandhi as president of the party, was seen as attempting to exploit to the maximum sympathy aroused by her husband's assassination. The Hindu revivalist Bharatiya Janata party (BJP), denounced the decision as demonstrating the bankruptcy of the Congress party.

An exit poll carried out in Delhi during voting on Monday, and which was published yesterday, indicated that the BJP was heading for a substantial victory in the capital. Of the 510 seats for parliament being contested in the election, voting for 204 took place on Monday.

The impact of Mr Gandhi's death is seen by the BJP as robbing it of many of the seats

it had expected to gain. The Congress is expected to benefit from the type of sympathy vote that gave Mr Rajiv Gandhi a landslide victory in 1984.

Only hours after his death it was announced that the final two days of polling in India's general election would be postponed from Thursday and Sunday to June 12 and 13. The election commissioner decided on this long postponement after discussions with President R. Venkataraman but without consulting the political parties.

The Congress party spokesman said that the party's main policy-making body - which had earlier in the day been expected to choose an elder statesman of the party as interim president - had elected Mrs Gandhi unanimously.

Responding to questions about her Italian birth, he said Mrs Gandhi was a party worker and that the party's decision would "be commensurate to her in due course." It was unclear how much discussion there had been with Mrs Gandhi who was overwhelmed by grief.

Asked whether she would be groomed as a future prime minister, he said that Congress presidents did not always become prime ministers. Mr Gandhi's body - badly mutilated by the blast - was taken to Delhi from Madras early in the morning and lies in state in Teen Murti House, the residence of Jawaharlal Nehru, his grandfather. Thousands of mourners filed past his body. He will be given a state funeral on Friday.

There was still no firm indication last night as to who was responsible for the killing of Mr Gandhi. A government spokesman said that no group had claimed responsibility.

An unknown militant Tamil organisation phoned the Bangalore office of a national newspaper and said they had carried out the attack on behalf of Tamils in India and Sri Lanka. Mr Gandhi was seen to have been a target for Tamil extremists after sending the Indian army into Sri Lanka to suppress a Tamil revolt. The Tamil Tigers (LTTE), the main Tamil militant movement in Sri Lanka, denied responsibility for the attack.

Some of the worst violence yesterday occurred in Tamil Nadu where crowds turned against the regional Tamil party, the Dravida Munnetra Kazhagam (DMK) of Mr K. Karunanidhi, former chief minister. A DMK newspaper office was burnt and at least 40 trucks and buses set ablaze. Tamil property was also attacked in other Indian cities.

In Delhi, angry crowds outside the residence of Mr Gandhi blamed his death on organisations as diverse as the CIA and the Janata Dal party of former Prime Minister V.P. Singh. The ready acceptability of conspiracy theories added to the sense of tension.

Among those due to attend Friday's funeral are Mr Dan Quayle, the US vice-president, Mr Nawaz Sharif, Pakistan's prime minister, and Mr Douglas Hurd, Britain's foreign secretary. Indian economy frozen in time, Page 4; Nation stretched to breaking point, Page 12; Million griefs, Page 14



Sonia Gandhi yesterday: overwhelmed by grief

Cresson advocates EC-wide industrial policy

By Ian Davidson in Paris

THE PROMOTION of a European-wide industrial policy will be one of the first priorities of the French government, Mrs Edith Cresson, the new prime minister, announced yesterday.

She told the National Assembly that she would pursue that aim with the European Community and with European industrialists, "with whom I have had close relations for many years".

Mrs Cresson did not spell out what initiatives she would be taking in this direction, nor what a European industrial policy would comprise, although she appeared to rule out any recourse to protectionism.

But she identified two key sectors, cars and electronics, as being in need of a European industrial policy.

"Europe cannot be just a large market", she said. "The Europeans cannot depend on the outside world for certain products which are essential for their technological future or their defence."

"An urgent effort is needed to ensure a common future in key sectors like cars and electronics: let us be bold and inventive. Forty years ago the founding fathers created a European Coal and Steel Community; today it is a true Electronics Community that we need."

Mrs Cresson has long had the reputation of a would-be interventionist in industrial affairs. It is not clear, however, that she will have as much freedom for launching an interventionist European industrial policy. In her new government, industrial policy comes under the overall authority of Mr Pierre Berégovoy, the finance minister, whose instincts are resolutely liberal.

Mrs Cresson's promise of a European industrial policy initiative would take a tough line in defence of French culture in the international trade negotiations in GATT. "We want to maintain a competitive agriculture which will keep, or even increase, its market share in the world markets."

On the fundamental issues of macro-economic policy, Mrs Cresson has long had the reputation of a would-be interventionist in industrial affairs. It is not clear, however, that she will have as much freedom for launching an interventionist European industrial policy. In her new government, industrial policy comes under the overall authority of Mr Pierre Berégovoy, the finance minister, whose instincts are resolutely liberal.

Rebels advance on Ethiopian capital

By Julian Ozanne in Addis Ababa

AN EERIE mood of apathy, anxiety and pessimism engulfed Addis Ababa yesterday. Dishevelled, weary government soldiers straggled into the capital and the capital workers took down the Soviet-realist posters of former dictator Mengistu Haile Mariam who resigned and fled the country on Tuesday.

"We are happy Mengistu has gone but we fear the future. There is no reason to celebrate," said Mr Tedesse Alem as workers unscrewed a huge metal billboard in Revolution Square which portrayed Mr Mengistu as the leader of a new socialist dawn. "One nightmare is over but we don't know if another is about to begin."

Rebels continued to press towards the capital, overrunning government troops falling back in disarray. By nightfall the rebel Ethiopian Democratic Revolutionary People's Front had captured the town of Genet, 25 miles west of Addis Ababa.

The rebels again rejected the new government's offer of a ceasefire, fueling fears in the capital of a breakdown in law and order as more tired soldiers flee the battle lines. Attempts by the government to hold defeated troops back at checkpoints and disarm them is proving successful so far, but some are still trickling through.

Several European embassies, including Britain's, were advising non-embassy nationals to evacuate the capital and were making plans to lay on special charter flights.

Addis Ababa appeared normal on the surface. The regular light flow of traffic worked its way through the drizzle and most shops and offices were open. But

there was depression and confusion. A crowd of about 2,000 gathered around Arat Kilo, a downtown junction, as municipal workers with a crane removed a 15-foot portrait of Mr Mengistu. But there was none of the excitement, jubilation or cheering that has marked the similar dismantlement of the iconography of east Europe's Marxist leaders.

"Nobody trusts anybody. Mengistu has gone but people are still afraid. The security police are still here, the structure of government is the same," said Desta, a student.

Policemen stood guard outside the Menelik Palace, Mr Mengistu's former residence, and in front of a 30-foot bronze statue of Lenin in the capital. At the mercato, a huge market, clumps of ragged soldiers from the front

stood around aimlessly with their automatic rifles wrapped in bandoliers of bullets swung over their shoulders. "I am very disturbed that the fighting will come to Addis. I am very much afraid," said Miss Almaz Tegegne, a shop assistant.

There was concern among western diplomats for the members of Mr Mengistu's Marxist party and the many agents of his oppressive 14-year rule. "There are deep-seated, pent-up feelings against the bad people and a desire for retribution. If public order collapses there will be a lot of bloodshed," said one western observer.

Acting President Tesfaye Gibre Kidan mediating the five ambassadors who have permanent seats on the United Nations Security Council to

Continued on Page 14

Gorbachev optimistic about his chances of attending G7 talks

By Leyla Boulton in Moscow, Peter Riddell in Chicago and agencies

SOVIET President Mikhail Gorbachev yesterday expressed optimism about his chances of being invited to the Group of Seven summit in London in July and said that his government's economic reform plans needed to be more radical.

Mr Gorbachev appeared to be voicing support for efforts by Mr Gregory Yavlinsky, the Soviet economist, to work out a new economic and political reform package based on co-operation with the west.

The Soviet leader's comments came as Mr James Baker, US secretary of state, told a congressional hearing in Washington that the US should consider giving aid to the Soviet Union on certain economic and political conditions.

Mr Baker said he continued to strongly support a long-standing US policy that economic assistance should be made conditional where possible on free market reforms. He added that a programme of aid would have to be linked to political issues such as containing the Soviet Union's military capability. "I don't think

that we're at the point that we can look at this solely as an economic issue... We also have to look at some issues on the political side," he said.

Mr Michel Camdessus, managing director of the International Monetary Fund, said in Chicago that the Fund stood ready to move rapidly in providing technical assistance for economic reform in the Soviet Union once Moscow and leading western industrial countries had reached agreement on how this might be done.

He said that what was needed was some agreement between the G7 industrial countries and the Soviet Union on a formula for providing help. The IMF would then be "delighted to be of assistance. We are used to moving rapidly. There are no institutional barriers to providing technical assistance. It will not take more than a day," he said.

Mr Camdessus stressed the importance of a union treaty between Moscow and the republics if the Soviet Union was ever going to be able to put together a proper reform programme.

Mr Gorbachev said he wanted to attend the G7 summit to hear western leaders' suggestions on how we should best co-operate in order to consolidate a positive tempo which is gaining strength and which we should preserve."

Without mentioning Mr Yavlinsky, who is currently in the US to work out a joint approach to Soviet reform with US economists, Mr Gorbachev echoed many of his ideas for a new political consensus accompanied by radical market reforms.

But he also repeated earlier warnings, aimed at salvaging Soviet pride, that other countries should not expect to "impose models" on the Soviet Union.

The Soviet president also expressed confidence that difficulties with Washington over arms control would be ironed out during the current visit to Washington by General Mikhail Moiseyev, the Soviet chief of staff.

Russians come home to Tajikistan, Page 2

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US trade pact unlikely to dent Mexican mistrust

Under President Carlos Salinas de Gortari, Mexican foreign policy is undergoing a decisive change towards a stance guaranteed to enrage the country's powerful left-wing. Page 6

MARKETS

STERLING	DOLLAR	STOCK INDICES
New York lunchtime: \$1.7270 (1.7365)	New York lunchtime: DM1.722 (1.7115)	FT-SE 100: 2498.9 (-18.5)
London: \$1.7285 (1.7365)	London: DM1.722 (1.7115)	FT Ordinary: 1833.4 (-9.1)
DM2.9725 (2.9725)	FF5.845 (5.8075)	FT-Air-Shares: 1,191.59 (-0.6%)
FF10.0825 (10.085)	Y138.0 (137.4)	New York lunchtime: DJ Ind. Av. 2,904.96 (-1.12)
Sfr12.52 (12.519)	Sfr1.4985 (1.448)	S&P Comp 376.58 (+0.21)
Y236.3 (236.5)	Y index 91.9 (92)	Tokyo Nikkei 25,398.66 (-82.65)
US lunchtime rates	Fed Funds 5 1/8%	3-month T-bill: 11 1/2% (11 1/2-11 3/4)
3-m Treasury Bill: 5.81%	Long Bond: 8 1/8%	100-day T-bill: 8 1/8%
Chief price changes yesterday: Page 15		

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EUROPEAN NEWS

Union protests against monetary policies

Solidarity takes to streets in show of national rage

By Christopher Bobinski in Warsaw

FLAGS flapped and banners strained against the breeze as the Solidarity trade union took to the streets of Warsaw yesterday for the first time since the fall of the Communists, to protest against the government's stringent monetary policies.

"We come into work every day and we don't know if we'll be needed," said one employee of the FSO car factory in the crowd of about 10,000 union members.

Another complained about low pay. "I have a basic monthly wage of Zl 1.2m after 18 years at the plant and my rent is Zl 400,000 a month," he said.

All agreed the Government was squeezing the state sector with taxes while private companies — "more often than not owned by former communists" — were not paying enough. "We're the ones who are providing the budget income" said another.

The Solidarity crowd later marched under blue sunlit sky to hand in petitions against wage controls at the main government building and parliament.

Elsewhere in the country the

union staged short stoppages, notably in the coal mines and in factories in the south west, while in Gdansk, the movement contained itself with hanging out flags and sounding alarm sirens at midday.

Solidarity wants pledges that wage controls in the state sector will be gradually removed, a clear government statement on the future of industry and farming and the removal of former communists from the administration.

Privatisation policies are also coming under fire for favouring those who are already rich.

A spokesman at Solidarity headquarters in Gdansk said the union was "satisfied with the response which showed that the union could mobilise its members".

More importantly, the protest has given people the signal that the government's stringent monetary policies, agreed with the International Monetary Fund, could now legitimately be criticised.

The Warsaw crowd heard the burly local Solidarity leader, Mr Maciej Jankowski, demand that the government outline clear policies for Polish

industry, which he said was going into terminal decline. "If industry collapses and our best engineers and academics emigrate then we'll sink to fourth world status like Bangladesh without any hope," he thundered.

"We don't want to overthrow the present government but we want all our parties to make their position clear: do they want a country run by a rich oligarchy and the rest mere masses without any hope for the future, which is the way things are going now?"

More would have come to listen and march if not for a bus strike in Warsaw, now in its second day, where drivers are demanding a 50 per cent pay increase. The drivers held talks with city authorities but rejected a pay offer as too low.

Fulfillment of the demands would mean that half the city authority's budget would go on public transport, said the mayor, Mr Stanislaw Wyganowski.

However, rubbish disposal workers ended a week-long stoppage yesterday after being promised Zl 500,000 a month more on top of the Zl 1.8m they now earn.



STRIKE: workers in Minsk protest outside the Byelorussian supreme council

Brussels adopts draft measures on advertising

By Andrew Hill in Brussels

ADVERTISERS may have to support claims that one washing powder "washes whiter" than another with scientific proof, if draft measures adopted yesterday by the European Commission are to become law.

The Commission wants to regulate comparative advertising campaigns by adding new clauses to a 1984 directive which controls misleading publicity. It hopes the measure will be adopted by member states before the beginning of 1993.

The draft clauses would allow advertisers to compare the essential features of products or services, but such comparisons would have to be objective and supported by scientific proof.

Brussels also wants to outlaw the sort of aggressive campaigns common in the US, where hoardings and television commercials are frequently a forum for accusations and counter-accusations about competing products.

Publicity which "denigrates" rivals would be banned under the draft proposals, as would advertisements which led to confusion between competing brand-names, products and services.

Mr Karel Van Miert, the commissioner for consumer protection, said the aim was to improve information for consumers.

sumers, stimulate competition and harmonise EC regulation of comparative advertising.

He said he hoped the industry would itself produce a code of conduct, on comparative advertising, which accounts for only 2 per cent of advertising expenditure in the EC.

Existing EC legislation in this area is confused. Only four countries — Spain, Ireland, Portugal and the UK — have laws expressly authorising comparative advertising and France is bringing in a similar measure.

Other member states are subject to a range of overlapping rules and case law; in some countries these outlaw the mention of a rival company's name or the use of trade-marks without permission.

The Commission will this week send letters of notice to 10 member states as the first formal step towards legal action aimed at ending cross-border monopolies in electricity.

The Commission warned the countries two months ago it wanted to dismantle national energy monopolies. If it now emerges that they do not conform with the Rome treaty, Brussels will send "reasoned opinions" to the relevant member states and can eventually take them to the European Court of Justice.

Parliament opens way for presidential poll

By Leyla Boulton in Moscow

THE Russian parliament yesterday cleared a big obstacle to the holding of presidential elections next month, when it approved a law defining the powers of the future president.

The first directly-elected president in Russian history will have the power to appoint and sack ministers, issue decrees and sign international pacts. He will also have responsibility for guaranteeing the national security of the largest Soviet republic.

The president's powers to a certain extent mirror those of the

Soviet president, Mr Mikhail Gorbachev, but an earlier plan to make the Russian leader commander-in-chief was dropped.

While Mr Boris Yeltsin, the popular chairman of the Russian parliament, is almost certain to win, he faces a serious challenge from Mr Nikolai Rykhkov, the former Soviet prime minister who has become the standard-bearer of Communist party conservatism. The Congress is due today to clear amendments to the constitution, enabling the presidential law to take effect.

Candidates lack flamboyance

By Our Moscow Correspondent

LACKING the flamboyance characterising US-style presidential elections, the six candidates for the first-ever Russian presidency are however undergoing a crash course on popular politics.

"With the race officially open since Monday, nobody has yet killed any horses. But the elections and promises have begun rolling in, with a few hiccups."

Mr Boris Yeltsin, for one, was having trouble calling things by their name. Helinquishing the floor at yesterday's Russian congress to General Albert Makashov, his neo-Stalinist opponent, he almost called him a pretender

rather than a candidate. Gen Makashov, cutting an uncharismatic figure despite his uniform, said he offered "constitutional order which would force everybody to work and not engage in speculative activity". His pledge to "sovereign" the economy and stop capitalists buying up the country was drowned in laughter.

He pledged to restore Russian patriotism, saying generals had made good presidents in the US, South Korea and Taiwan. Mr Vadim Bakatin, the former interior minister who still advises President Mikhail Gorbachev, said his credo was "common sense". He

warned voters "not to expect any sensations" from him.

Mr Bakatin, who disclosed he had rejected an offer to become Mr Yeltsin's running-mate, acknowledged some confusion existed over whose vote he was trying to attract. "I am relying on the majority of Russians who work, stand in queues, and worry about the future of Russia," he said.

Mr Vladimir Zhirinovsky, head of the Liberal Democratic Party, made the most inauspicious start of all. Congress deputies' assessment of his inaugural speech ranged from "a circus act" to "a shameful comedy".

Ukraine calls for elections

By Our Foreign Staff

THE PARLIAMENT of the Ukraine, the second largest Soviet republic, yesterday approved a draft constitution for an independent republic and called for direct presidential elections. Chrysia Freedom writes from Kiev.

The constitution is not likely to become law before the end of the year however. This means that neither the Ukrainian parliament nor its president, Mr Leonid Kravchuk, is empowered to sign the proposed Union Treaty between the central government and other republics before then.

The draft constitutional law, approved by 231 out of the total 450 deputies, reflects the increasingly radical mood in the Ukraine and endorses private ownership.

Portugal trade balance worsens

PORTUGAL'S trade balance worsened in the first quarter of this year, the deficit rising 25 per cent over the same period in 1990, to reach Esc\$17.5bn (\$2bn), writes Patrick Blum in Lisbon. Export growth slowed, up 1.3 per cent to Esc\$78.9bn, against Esc\$77.8bn in the first quarter of 1990, the National Statistics Institute said. In March, exports fell 9.4 per cent. Imports rose 8.6 per cent to Esc\$96.4bn, against Esc\$92.5bn a year earlier.

UK-Albanian ties

Britain said yesterday that it had agreed in principle to restore diplomatic relations with Albania after Tirana dropped all conditions, writes Our Foreign Staff. The ties were severed more than 50 years ago.

Fiat cuts stake to win EC merger approval

By Andrew Hill in Brussels

FIAT of Italy has agreed to cut its stake in one of France's largest car-battery producers from 75 per cent to 10 per cent, in order to win European Commission approval for a merger with the battery subsidiary of the French company, Alcatel-Alsthom.

The bargain completes the second in-depth inquiry by the Commission into last October's link-up between Alcatel-Alsthom and Fiat. It may have implications for the outcome of another Brussels investigation, into the proposed car battery merger between the German companies Robert Bosch and Varta.

EC competition officials also see the deal as a small victory over those within the Commission who had argued for unconditional approval of the deal on the grounds that it would create a strong "Euro-champion" in the world market.

HDTV groups receive Ecu85m in state aid

By Our Foreign Staff

Brussels has approved more than Ecu85m (\$100m) of French and Italian state aid to electronics groups involved in the development of high-definition television (HDTV), including subsidiaries of the French company Thomson, Philips of the Netherlands, and Finland's Nokia.

The aid, which takes the form of grants and loans, was waved through by the European Commission on the grounds that HDTV is part of the EC Eureka research programme and "an important project of common European interest".

Such projects are exempt from the usual restrictions on state aid. The Commission is still hoping to submit its proposals on future HDTV strategy to telecommunications ministers on June 8, although a Tuesday meeting of broadcasters, satellite operators and electronics groups broke up without reaching a compromise on the memorandum of understanding which will form one half of the strategy.

Meanwhile, Brussels announced yesterday it has started an investigation into Dutch state aid for the recycling of pig manure. The aid, a parafiscal levy worth Ecu26m (\$31m) for the transportation and storage of the manure, is intended to reduce pollution.

Through the Commission says it fully understands the environmental objectives of the Dutch government, it has "accepted several Dutch aid schemes in that sector" and considers further injections of quasi-government resources may constitute illegal state aid.

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Russians come home to Tajikistan

Jo Carley finds that life in Central Asia is preferable despite the nationalist threat

WHEN Lynda Borova, a Russian physics teacher, stepped off the aircraft onto Soviet Tajik soil this month, she considered herself to be striking a small blow against the rising tide of nationalism. For she decided to return just four months after leaving Tajikistan, supposedly for good, driven out like thousands of other Russian residents by mounting fears of an impending anti-Russian backlash in Central Asia.

"Even though I'm Russian, Central Asia is still my home, in spite of all this nationalism," she said defiantly, as she sat among packing cases. She had found, to her horror, that life had actually been harder in the Russian town where she had moved than in her home city of Dushanbe, the capital of Tajikistan.

The return of Mrs Borova and other Russians does little to reverse the tide of those who have left Tajikistan in the last two years. Recent figures suggest that 50,000 Russians have left or wish to leave the republic.



lie, where they make up about 7 per cent of the total population — but it does, however, mark a recent change in the attitudes there.

During the last two years the steady rise in nationalism has left the Russian community in Central Asia feeling increasingly threatened. The decision

of the Central Asian republics to turn their indigenous languages into the official state language, for example, has been regarded as a significant blow, since less than 25 per cent of the Russians in Central Asia speak them.

Events like the brutal lynching of six Russian soldiers last

year in the Uzbek town of Namangan, or the anti-Russian attacks during riots in Dushanbe 18 months ago, have fuelled Russian fears that a future backlash could be considerably more violent than anything seen so far in the Baltic republics. More than half the Russians polled in Tajikistan earlier this year, for example, said they would be prepared to set up self defence militias in the face of rising nationalism. In practice though, attempts to set up groups protecting Russian language interests in the republic have been declared illegal.

Nevertheless, although the fears remain, it seems that the threat of imminent unemployment in Russia, coupled with the problems of finding increasingly scarce housing in Russian cities, means many Russians are staying put. For the first time in recent months, the number of Russians leaving the republic has actually fallen according to unofficial government estimates.

The republic's government

and opposition parties are keen to fan this confidence — the opposition Democratic Party, for example, recently appointed a Russian as its vice leader — not least because the republic can ill afford to lose the technical and scientific specialists who have, to date, been overwhelmingly Russian. Indeed, the exodus has already caused serious shortages in medical and engineering professions, adding to the republic's mounting economic problems.

But the results of the Soviet-wide referendum in March, which seemed to show that the Tajiks were overwhelmingly in support of the Union (although there were suspicions of ballot-rigging), does appear to be giving greater confidence to the Russians.

As Alya Vasileva, a Russian language specialist said: "As long as Tajikistan remains within the Union, we think we have a future here. But if it becomes independent, we'd be terrified that an Islamic state might develop."

Bonn favours broader role for troops in UN

By David Goodhart in Bonn

THE German Social Democrats (SPD) look set to agree to a broader role for German troops in the service of the United Nations if the UN can reform and clarify its rules on military intervention.

Chancellor Helmut Kohl is strongly in favour of reforming the German constitution to allow German troops to operate outside the NATO area, especially after Germany's modest role in the Gulf War. However, the SPD and the Liberal Free Democrats have both been more cautious.

The issue had threatened to divide the SPD's party congress at the end of this month but Mr Willy Brandt has now come up with a formula which favours immediate German participation in UN "blue

beret" peace keeping operations, but makes wider German participation in UN-sponsored actions dependent upon reform of the UN's military role. Mr Bjorn Engholm, the SPD chairman-elect, favours this compromise.

The SPD's view on the matter is important because a two-thirds majority in the Bundestag (parliament) is required to change the constitution. The Free Democrats have agreed to participation in blue beret operations and any action supported by the UN security council.

© The Bonn Economics Ministry said yesterday that it expected first quarter GNP growth in 1991 for west Germany to be between 3 and 4 per cent.

Belgian strike averted

By David Buchanan in Brussels

THE Belgian government has averted a planned strike on Friday by agreeing to pay the country's 300,000 public sector workers 6 per cent above the prevailing inflation rate over the next three years.

The deal contains the first revision since 1972 of the differential between different grades of civil servants, in an attempt to renovate a public sector that feels it has borne the brunt of austerity for the past 10 years under the prime minister, Mr Wilfried Martens. The government claims the extra charge on the national, as distinct from regional, budget will only amount to Bfr\$14bn (\$390m) a year.

But private economists fear, nonetheless, that the pay settlement risks breaking the Martens government's self-imposed rule against year-on-year increases in the budget

deficit, not just in real terms, but nominal terms as well.

The five parties in the ruling coalition are already beginning to jockey for position in advance of elections, which must be held by next January. © About 20,000 off-duty policemen demonstrated through Paris yesterday to demand higher pay and better working conditions, Reuters reports from Paris.

The policemen, mostly rank-and-file patrolmen from cities around France, marched in two separate processions under blue, white and red balloons. They belonged to two rival unions representing many of the 120,000 policemen employed by the French Interior Ministry.

The marchers wore street clothes because of a law which prohibits them from demonstrating in uniform.

Yugoslavia seeks \$4.5bn to help its economic reforms

By Judy Dempsey

YUGOSLAVIA'S federal government is seeking \$4.5bn (£2.6bn) from international financial institutions in order to implement its economic reform programme and bolster its authority in the face of secessionist moves by some of the republics.

Mr Budimir Loncar, the federal foreign minister, told a group of army officers earlier this week that "for the continuation of the economic reforms this year we need \$4.5bn. But much depends on the negotiations with the International Monetary Fund."

The implementation of reforms continues to be undermined by ethnic unrest, deadlock among the six republics and two provinces over choosing Mr Stipe Mesic, a Croat, as president, and considerable opposition by some of the republics to reforming their economies.

Yugoslavia has been without a federal president and head of the armed forces for more than a week following opposition by the communist republics of Serbia and Montenegro, and the provinces of Kosovo and Vojvodina, to appointing a non-communist president.

Despite the instability, the federal government remains hopeful that it will obtain financial assistance, and be able to negotiate a resched-

uling of part of its debt owed to the Paris Club of creditor governments. Last month, Mr Ante Markovic, the federal prime minister, told parliament that the Paris Club had indicated its willingness to reconsider Yugoslavia's request for a rescheduling of its \$640m outstanding debt.

Yugoslavia's external debt

It is expected to lose \$2bn in tourist receipts because of unrest

totalled \$16.3bn in 1990 and its reserves amounted to \$8.5bn.

The debt accounted for 27.6 per cent of GDP (which last year totalled \$58.9bn), compared with Hungary's 62.2 per cent and Poland's 74.3 per cent.

The government is faced with a deteriorating economic outlook. The balance of payments deficit is expected to reach \$1.5bn this year, after a \$1.1bn deficit last year.

GDP is likely to decline further this year after a fall of 8 per cent last year. Industrial output fell by 20 per cent last year and nearly 15 per cent in the first quarter of 1991 due to a decrease in capital invest-

ments, as well as continued over-investing and subsidies.

In addition, Yugoslavia is expected to lose at least \$2bn in tourist receipts because of threats of a military coup and ethnic and violence in Serbia and Croatia, the country's two largest republics.

Financing from international financial institutions could enable the federal government to speed up the pace of privatisation and the costly reform of the fiscal and banking system.

Mr Markovic has said that the percentage of non-performing bank loans is estimated to be as high as 60 per cent, or \$10bn. This is because enterprises, which have had the right to establish their own banks, frequently obtained soft credits. The governments in several of the republics have been reluctant to break the link between enterprises and banks because many enterprises could face closure.

A recent study by the World Bank stated that one third of all enterprises "are reportedly illiquid... but there have been no closures to date."

This resistance explains why the federal parliament has still not adopted a draft law on the reform of the National Bank of Yugoslavia and the financial operations of the national banks of the republics and provinces.

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WORLD TRADE NEWS

Change business practices, US warns Japanese

By Robert Thomson in Tokyo

The US yesterday warned corporate Japan that changes must be made to practices which allegedly inhibit fair competition, and hinted business opportunities in the US could be limited unless the changes come soon.

The trade debate between Washington and Tokyo is increasingly focused on the behaviour of Japanese companies as US officials yesterday signalled they were generally pleased with policy changes made by Tokyo over the past year.

Negotiators from the two countries yesterday signed a review of the first year of reforms under the Structural Impediments Initiative (SII), designed to remove obstacles to trade and cut Japan's huge bilateral trade surplus.

While US officials said Japan had partly abided by promises to increase public infrastructure investment and deregulate the country's complex distribution system, they cited several problems they claimed were directly related to the behaviour of Japanese companies.

US representatives suggested that corporate Japan was obstructing the strengthening of anti-monopoly legislation and opposed attempts to make transparent the activities of the *keiretsu* - corporate fam-

lies - characterised by cross-shareholdings and close business relationships.

Mr Charles Dallara, an assistant US treasury secretary, said many countries were becoming increasingly disturbed by the corporate families, as there is "a growing body of evidence that suggests *keiretsu* do tend to exclude foreign and other Japanese firms from business dealings."

"Change will require a greater commitment at the higher levels of government and a recognition by those (company) members that it is in their interests to open this system up," Mr Dallara said.

He suggested that if changes are not made, Japanese companies could find their foreign investment opportunities "severely undermined".

Japanese officials had an opportunity at the review session to press the US for economic policy changes that would reduce the trade deficit by making the country more competitive. Tokyo released a report calling on Washington to "make further progress" in personal savings and investment patterns, and in encouraging US companies to invest more in research and development. Tokyo also wants a continuing fall in the US budget deficit.

EC pressed on Airbus subsidies

WASHINGTON has told Brussels it intends to lodge, under Gatt procedure, a new complaint over EC government subsidies for Airbus, the European Commission said yesterday, Paul Betts writes.

Brussels called the US decision "incomprehensible and counter-productive". Any new US action against Airbus could not but have a "negative impact" on the multilateral trade talks.

The US has so far not filed a formal request in Gatt against Airbus subsidies, but US and US aerospace officials have indicated the row is reaching a head.

The US has already taken Airbus before the Gatt subsidies committee over Bonn's exchange rate support for Daimler-Benz, the German partner in Airbus. The US now plans to file a second, broader complaint against direct subsidies to help develop new Airbus programmes.

Washington has become frustrated by lack of progress in efforts to win a compromise on commercial aircraft subsidies with the EC.

The latest talks failed last February with the US seeking a 25 per cent limit on government launch aid for new aircraft programmes instead of the 45 per cent proposed by the EC.

Fares row blocks Caribbean air pact

Barbados objects to aspects of a draft accord, Canute James writes

A ROW over the setting of fares on lucrative London to Caribbean routes is preventing conclusion of an air services agreement between Britain and six countries in the eastern Caribbean.

The quarrel has led to charges that the British government is trying to give British Airways an edge over Caribbean carriers, and to warnings that the region's important tourist market in Britain and other European countries is at risk. While most Caribbean states accept the terms of an accord with Britain, Barbados says it needs to have a role in setting fares for routes between London and the region.

The row, which has intensified since inconclusive negotiations eight weeks ago, is complicated by claims by some Caribbean countries that the UK is making an effort to limit access to British airports of BWIA of Trinidad, in favour of British Airways.

Mr Philip Greaves, Barbados' air transport minister, suggested the Caribbean should not enter agreements which could threaten the region's tourist industry, its most important source of foreign currency. Barbados has objected to aspects of the draft agreement, arguing that air transport for tourists from an increasingly vital European

market was too important to be left unprotected.

Saying it cannot accept total deregulation of air fares, Barbados is suggesting a compromise allowing airlines to fix fares to an agreed ceiling beyond which government approval would be needed. Barbadian officials say this is necessary to maintain competitiveness for the island's tourist industry.

This has angered Mr John Compton, prime minister of St Lucia. "Barbados has taken a position which, unless resolved, can result in curtailment of BWIA services between St Lucia and our tourist industry," he says. The tourist industry in islands such as St Lucia, Dominica, Grenada and St Vincent depends on BWIA services.

The UK had earlier refused to entertain a request from BWIA, owned by the Trinidad and Tobago government, to continue a second St Lucia-London flight it had added for the winter season. A British diplomat said that "the application has been extended to end-May. A further extension will depend on the multilateral air agreement being worked out between Britain and the Caribbean countries." While the other countries have favoured the pact with the UK, and are concerned at Barbados' attitude, some regional officials

have said privately they "understand" why that island's administration has taken such a trenchant position.

One Barbadian official said there was support for the administration's position from the region's tourist industry. In March, the Caribbean Tourism Organisation (CTO) concluded the region was faced with an "airline oligopoly" in the form of British Airways and American Airlines.

"From the point of view of the region and the destinations within," the CTO said, "one big issue arising is the reduced availability of discount fares and/or the level of discounts to the region resulting from fewer airlines controlling more share."

Two aspects of the proposed agreement have worried the Barbadians. While it allows Caribbean countries to designate a single carrier to the UK, it does not limit the number of airlines the UK can designate to the region. "This is unique in aviation history," said Mr

Ian Archer, a former permanent secretary for civil aviation in Barbados, and now an airline industry consultant. Such agreements usually gave equal rights to the signatories.

The other point the Barbadians find unacceptable is the suggestion that the Caribbean countries involved would give up their Air Transport Licensing Authority rights in exchange for granting BWIA increased flights. These rights allow some influence on the number of flights and carriers on a route. Conceding this, say regional officials, could mean the Caribbean would be unable to designate a carrier for any route British Airways decides is not worth flying.

All the countries in the controversy are after the same thing: guaranteeing that their tourist industry, and especially the UK and European market, is not affected by a shortage of airline seats. The CTO says many European tourists visiting the Caribbean go through London. Total scheduled passenger traffic between the UK and eastern Caribbean resorts was estimated by the CTO at 341,000 in 1988. "The two scheduled carriers serving this route are British Airways and BWIA International," the CTO said.

"BWIA's share is estimated to have decreased from 31 per cent in 1985 to 27 per cent in 1988."

French join Poles for TV venture

THOMSON Consumer Electronics (TCE), the French state-owned maker of TV sets and audio/video products, has entered a joint venture to make television tubes in Poland, William Dawkins reports from Paris.

The group's Videocolour TV tube subsidiary has taken a 51 per cent stake in a new company with Polkolor, a state-controlled Polish television maker, and plans to invest FF2200m (£19.8m) modernising its partner's Warsaw plant over the next three years. This is one of the first French participations in Poland's privatisation programme, in which the Warsaw aims to find private investors for 8,000 state enterprises.

Mr Jannusz Lawandowski, Polish privatisation minister, wants 60 such deals this year. This follows the recent acquisition by Philips, the Dutch electronic company, of Poland's largest lighting producer, and the takeover of Fampa, the pulp and paper group, by Beilitt of the US.

Polkolor, founded in the mid-1970s, makes 700,000 tubes annually under licence from RCA, Thomson's US brand, but has a capacity of 2m tubes a year. The new group, Thomson-Polkolor, will make small and medium-sized tubes.

Washington in gear for fast-track vote

By Nancy Dunne in Washington

THE Washington lobbying circuit this week is in high gear for the approaching vote on President Bush's request for a two-year extension of his "fast track" negotiating authority for the Uruguay Round and the North American Free Trade Agreement (Nafta).

While the Hispanic Americans for US-Mexico Free Trade were holding a press conference yesterday to demonstrate their support, Mr Ralph Nader's Public Citizen organisation was delivering glass jars labelled "Danger! 2071" to every House office. The jars were attached to circulars which declared that the extension could allow fruit and vegetables to be "slathered with the deadly stuff".

To the undisturbed, Public Citizen explained: "Fast track means having only 60 days to consider thousands of pages of enabling legislation that will change broad stretches of US law. Then, after limited debate, the only vote allowed is 'yes' or 'no'. Stop fast track, and make sure future trade agreements are good for all Americans."

Congressman Richard Gephardt, House majority Leader, has been the focus of much of the anti-fast track activity. Since he agreed to support the extension, albeit with conditions, protesting constituents have been mailing him old campaign buttons and bumper stickers. A Gephardt staff member, meeting a delegation of farmers, was handed a picture autographed by the congressman for a former supporter who had asked that it be returned.

"We feel completely betrayed by him," said Mr Susan Denzer of the Family Farm Coalition. The group pressed the staffer to get Mr Gephardt to insist on new conditions easing the US free trade stand in the farm

negotiations under the aegis of the General Agreement on Tariffs and Trade (Gatt).

Although Senate headcounters feel confident the extension will be approved, one aide acknowledged he had only 40 or so committed, out of the 51 needed, in support of President Bush. Many of the officials undecided are hoping the President will have enough support so they can vote against the fast-track to satisfy their labour and environmentalist constituents.

In the House, there were demands for close scrutiny of the Nafta talks and high-level negotiations about what type of demands to place on the administration for consultations before a final agreement comes to a vote.

Mrs Carla Hills, US trade representative (USTR), is seeking an "unencumbered fast track." Proposals to allow amendments to a final agreement in a limited number of areas, such as environment and labour issues, would leave her "fairly lonely," she said on Monday, because no one would negotiate with her.

"Congress cannot negotiate a trade agreement," she declared. They created USTR to be responsive to the Congress, to negotiate, and to shakele us, to make us less effective simply destroys a partnership that has worked extremely well for the past 50 years."

Mr Mark Anderson, the leader of the labour forces, believes the more conditions on the negotiators, the better. "It chips away at this sort of executive branch power grab," he said. No matter how the fast track vote goes, it has been made clear to the administration that it will have to address concerns of labour and environment to get Nafta approved, Mr Anderson insisted.

Finns, Portuguese in petrol components deal

By Enrique Tessleri in Helsinki

NESTE, the Finnish state-owned oil and chemicals group, and Petrogal, the Portuguese oil company, have formed Octano - Companhia Portuguesa de Octanos - a joint venture which will produce methyl-tetra-butylene-ether (MTBE) and alkylate, both seen as environmentally friendly high-octane petrol components.

Neste and Petrogal will have a 65 and 35 per cent stake in the new company respectively. The two groups will invest \$100m (£69m) in building a 50,000-tonne-a-year MTBE facility, as well as an alkylate plant which will have an annual production capacity of 200,000 tonnes. The joint venture is based in Sines, about 100km south of Lisbon.

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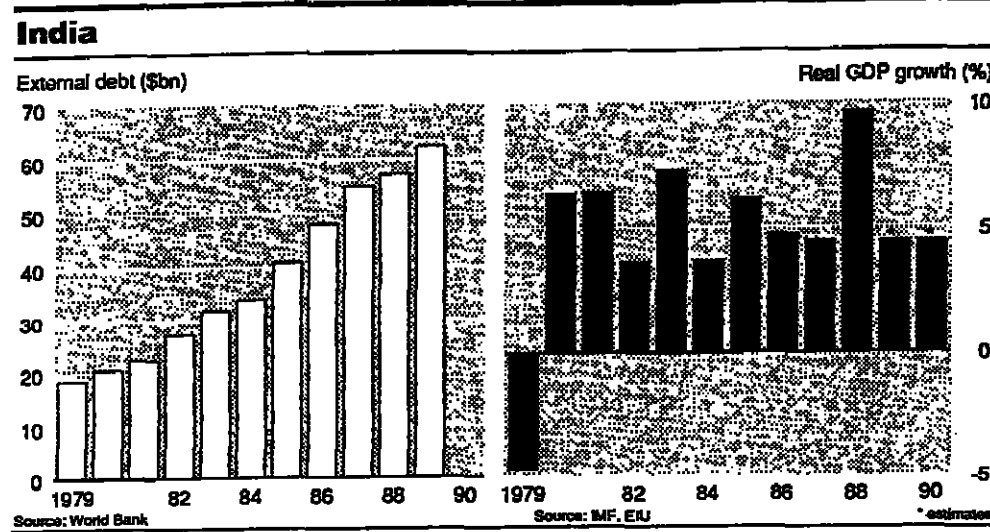
Indian economy frozen in time

Gandhi's wealth of good intentions had no impact on a system steeped in the past, Martin Wolf writes

RAJIV GANDHI inherited both the opportunity and the obligation to unravel important parts of the economic legacy of his grandfather, Jawaharlal Nehru, and his mother, Indira Gandhi. But good intentions were not enough. During five years in office he failed, resigning as prime minister in November 1989 and leaving behind him a country well on the way to economic chaos.

India has long had difficulties in managing its balance of payments. Indeed, it was a payments crisis in the mid-1980s that confirmed the country on its course of inward-looking, forced industrialisation that drew much of its inspiration from the then widely-admired Soviet model. But India's present position is something new. It reflects a breakdown in macro-economic policy, which would have been unthinkable in the old days of Congress supremacy and civil service control.

In 1990-91 India's current account deficit in the balance of payments reached \$10bn (\$5.7bn), more than 50 per cent of its exports; even with the draconian curbs on imports now in force, it is likely to be \$6bn this year. Between 1980



Source: World Bank

Source: MF, EU

and 1989, India's external debt grew from \$20.6bn to \$62.5bn - from 12 per cent of gross national product and 136 per cent of exports of goods and services in 1980 to 24 per cent of GNP and 258 per cent of exports of goods and services in 1989.

India, a country desperately concerned to limit interference by the World Bank and the International Monetary Fund, seems now to be at their

mercy.

This deterioration in India's external position is blamed by many policy-makers and commentators on the import liberalisation initiated by Rajiv Gandhi's government. The true reason is different. It is the scale of India's budget deficit, which rose from 3.4 per cent of gross domestic product in 1979 to more than 9 per cent in 1986. Just as happened in many Latin American countries in

the 1970s, the deterioration in the public finances was the proximate cause of the huge increase in foreign borrowing. Also as in those countries, the prospective termination of large-scale foreign borrowing in the presence of a substantial budget deficit is likely to bring about a sharp increase in inflation. Given the sensitivity of Indian opinion to inflation, such an increase could prove an important further source of

political conflict.

The deterioration in India's fiscal position is likely to prove the most important legacy of Rajiv Gandhi's period as prime minister. His attempts at economic liberalisation were not insignificant and led to a substantial improvement in the country's rate of economy growth.

But liberalisation is unsustainable in the presence of substantial macro-economic imbalances, which show themselves in higher inflation, larger current account deficits and soaring international indebtedness. Furthermore, however dramatic it may have been by India's standards, the liberalisation of 1985-87 was decidedly limited by those of almost any other country. The structure of official control - over what can be imported, over who can import, over who can produce, over where things can be produced, over the amounts that can be produced, over who can be employed and over who can be made redundant - was left intact. The way in which regulations were interpreted may have changed. The basic structure of control remained unaltered.

That system of controls,

which developed after independence as a by-product of a mistaken economic strategy, has become among the most fundamental facts of Indian economic life. Corruption is not incidental and cannot be eliminated, as Rajiv Gandhi discovered, by a "Mr Clean" or, as his successor Mr Vishwanath Pratap Singh also found out, by a "Mr Cleaner".

It is an inevitable consequence of an economy in which nothing can be done without permission, in which virtually all economic decisions are, in consequence, political decisions. The ability to operate such a system is inevitably a condition for successful entrepreneurship and a motivation for political engagement. Unfortunately, these adverse political consequences of the policy choices of the 1980s and 1990s have had few countervailing economic benefits.

Industrial growth, even though it rose to 5.4 per cent a year in the 1980s, has remained well below levels achieved in virtually all the east Asian economies. India's exports, crippled by the huge levels of protection afforded to its import-competing industries, are now about



INHERITANCE: a young Rajiv with his grandfather Nehru, who pioneered the policy of inward-looking forced industrialisation

30 per cent of those South Korea.

In short, the task of unravelling an important part of the economic legacy of Rajiv Gandhi's predecessors remains, as does the pressing need to bring macro-economic stability back to India. Both demand

purposeful and coherent government.

But that is precisely what Rajiv Gandhi's tragic death, along with the consequences of India's economic policies for its political system, have made it far more difficult for India to enjoy.

Congress seeks sympathy vote for Sonia Gandhi

By David Housego in New Delhi

MRS Sonia Gandhi, 42, the Italian-born wife of Rajiv Gandhi who has taken over as president of the Congress party, was strongly opposed to her husband entering politics in the early 1980s.

Reserved and closely involved in educating her two children, she seemed most happy in recent years when her husband was out of power. There was thus amazement in Delhi yesterday when it was announced that she was taking over the presidency of the Congress party.

The thinking behind the move seems to be based on three main considerations. As president of the party she is best placed to gather the sym-

pathy vote that party leaders expect will swing in Congress's favour during the two remaining days of polling in the general election. Voting will now take place in the 304 seats that remain of the 510 being contested on June 12 and 15.

Rajiv Gandhi won a landslide victory in the 1984 election after his mother's assassination and Congress hopes that Sonia Gandhi can help to reverse the party's fortunes in this election where the party has been losing ground to the Hindu revivalist BJP party.

The second consideration is one of her own family and its political role in India. Rajiv Gandhi, like his mother Indira, would almost certainly have

wanted the Nehru dynasty to remain a force. It was because of this reasoning that Mrs Gandhi pushed Rajiv into politics when his younger brother - the real politician among the two sons - was killed in an air crash in 1981. In accepting the presidency, Sonia Gandhi is well placed to ensure that her son Rahul, 20, now at university in the US, can pick up the torch.

The third reason reflects the cold-blooded calculation of Congress leaders. They believe that, as an Italian by birth, Mrs Gandhi can be kept on a leash and would have no ambitions for the premiership.

The Congress party spokesman, in announcing her nomination, drew gasps of breath from reporters when he said that she had been elected unanimously by the party's leadership but had not been consulted.

He added that the party's choice as president was not necessarily its choice as prime minister. Congress leaders had similarly hoped to manipulate Mrs Indira Gandhi when she took over the Congress leadership in the mid-1960s.

It was not clear how long Sonia Gandhi would remain party leader after the election. The working committee can replace her by calling a party election.

If Mrs Gandhi showed no initial interest in politics - no more than her husband who began his career as an airline pilot - five years as prime minister's wife have deepened her involvement. The most tangible sign of this is the energy with which she campaigned for Rajiv Gandhi in the Amethi constituency in Uttar Pradesh of which he was the member. Eminent in Hindi, normally dressed in Indian clothes with



HOMAGE TO THE LEADER: Congress supporters yesterday carry Rajiv Gandhi's coffin in Delhi after its arrival by air force aircraft from Madras

a dupatta draped across her head, Mrs Gandhi has made an enormous effort to adapt to life married to an Indian. She made herself familiar with the Amethi constituency and its people just as she also learned the complicated relationships of the large Nehru family.

She has an image in public of being unsmiling and avoiding the press. She has given only one known interview - to a Hindi paper, in 1985, when

she said "I wanted Rajiv... and Rajiv is my greatest security." In the same interview, Sonia said she did not like to be in the limelight and appeared to suggest it was only for Rajiv Gandhi's sake that she entered public life. "Why should I fear following him to India or to the ends of the earth for that matter," she said.

In private she is a quiet but warm personality who keeps a firm grip on her household -

and on who gained access to Rajiv Gandhi.

It remains a moot point how much influence she had or wanted over her husband's political life. She was, nonetheless, embroiled in the scandals that tarnished his reputation. Part of the allegations were that Italian companies had illegally benefited from government contracts.

The daughter of an Italian industrialist, she met her hus-

band in England. Married in 1968, they have a daughter as well as their son Rahul. The slim, good-looking woman was not the darling of the media. They commented that she seldom smiled and she dressed in blouses that were too large for her.

It was some time before someone finally rose to her defence, saying she had few occasions to smile in public because of the constant threat

to her husband's life from Sikh separatists.

She wore large-size blouses to accommodate bullet-proof vests to protect her from the separatists, who blamed Rajiv Gandhi and his mother for a 1984 army assault on their holiest shrine, the Golden Temple, to flush out Sikh guerrillas. She appeared yesterday to be overwhelmed with grief but to be bearing it with great courage.

Policy change could divert \$50bn for human needs, UN report says

Developing countries criticised for neglecting well-being of citizens

By Robert Mauthner, Diplomatic Editor

DEVELOPING countries could do far more to finance their human development needs just by changing government spending patterns, according to a United Nations report published yesterday.

"There are far too many examples of wasted resources and wasted opportunities: rising military expenditures, inefficient public enterprises, numerous prestige projects, growing capital flight and extensive corruption," the Human Development report for 1991 claims.

Published for the UN Development Programme (UNDP), the report says that as much as \$50bn (\$29bn) could be found in developing countries for urgent human concerns by re-examining the priorities in countries' budgets.

It emphasises that many developing countries spend more than 25 per cent of GNP through their government budgets, but that their expenditure in "human priority" fields like basic education, primary health care, rural water supply, family planning, food subsidies and social security, is generally less than one-tenth of their total public spending. Much of the required money could come from freezing military spending, which absorbs as much as 5.5 per cent of the

GNP of the developing world. In countries such as Angola, Chad, Pakistan, Peru, Syria, Uganda and Zaire, for example, arms spending is at least double the amount spent on health and education.

The report, prepared by economists under the chairmanship of Mr Mahbub ul-Haq, former finance and planning minister of Pakistan, is equally critical of existing priorities in military spending and human development.

	Military	Health & Education
Iraq (91)	100	0
Iran (92)	100	0
Uganda (134)	100	0
Oman (86)	100	0
Pakistan (120)	100	0
UAE (56)	100	0
Angola (147)	100	0
Peru (78)	100	0
Chad (152)	100	0

Figures in brackets indicate world ranking according to The Human Development Index. 0 Ratio 50 100 Source: UNDP, Human Development Report 1991

the allocation of foreign aid.

"If only one-third of today's aid were committed to human priority areas, the aid allocation to these areas would increase four-fold," it claims. At present, only one-tenth of total official development assistance (ODA) is earmarked for human priority goals.

This demonstrates the enormous potential for releasing more resources for human development through a restructuring of aid budgets.

If aid money is not earmarked directly for human development, it is not likely to find its way there on its own, the report emphasises.

It frankly acknowledges that the existing distribution of resources usually suits those in power and that finance ministers of aid-receiving countries are generally reluctant to undertake recurring social expenditures which offer little immediate financial return.

Donors should base their allocations not just on income, population and poverty, but also on progress in human development, as measured by the Human Development Index. This index, considered by the report to be a more realistic statistical measure of socio-economic progress than GNP per head, measures 3 basic indicators of human

well-being - life expectancy, adult literacy and basic purchasing power for a "decent" living standard.

"The world offers too many uncomfortable examples of a wide divergence between income and human development levels," the report says. Giving telling examples, it points out that adult literacy in Saudi Arabia is lower than in Sri Lanka, despite the fact that Saudi per capita income is 15 times higher.

Brazil enjoys twice the per capita income of Jamaica, yet its child mortality rate is four times higher.

The US is richer than Canada, yet its life expectancy and educational attainments are lower.

Ranking 160 countries on the basis of their human development index, the report places Japan in first place, followed by Canada and Iceland.

The UK comes 11th, immediately after France, while Germany is only in 14th position. However, according to a "human freedom index", Japan is ranked no higher than 15th in the world classification, equal with the UK.

Delors in talks with Kaifu

MR Jacques Delors, president of the European Commission, who yesterday started an official visit to Japan, has put trade at the top of his agenda, Stefan Wagstyl writes from Tokyo.

In talks with Mr Toshiki Kaifu, the Japanese prime minister, Mr Delors expressed concern about the EC's widening

trade deficit with Japan. After falling steadily since 1983, the deficit has grown markedly in the last six months.

Mr Delors told Mr Kaifu that political co-operation went hand-in-hand with a balance of costs and benefits in economic relations. Mr Kaifu answered by pointing to the rise in Japanese imports from the EC.

LEGAL NOTICES

IN THE MATTER OF ALPHA OIL (HOLDINGS) LIMITED AND IN THE MATTER OF THE INSOLVENCY ACT 1986

Notice is hereby given that the Creditors of the above named Company are required, on or before 10th June 1991, to send their names, addresses and particulars of their claims to the undersigned, the Liquidator of the said Company, at Ernst & Young, Leadenhall House, 1 Leadenhall Street, London EC3A 3RN or in default thereof they will be excluded from the benefit of any distribution made before such claims are notified.

NOTE: This notice is purely formal. All known Creditors have been, or will be, paid in full.

28th April

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AND IN THE MATTER OF THE INSOLVENCY ACT 1986

NOTICE IS HEREBY GIVEN that I, CHRISTOPHER JOHN HUGHES of 10, GULLY, GULLY HOUSE, 2 Noble Street, London EC2N 7DQ was appointed Liquidator of the said Company on the 15th May 1991 by the Insolvency Act 1986.

NOTICE IS ALSO HEREBY GIVEN that the Creditors of the above-named Company, which is being voluntarily wound up, are required, on or before the 1st day of June 1991 to send in their full names and addresses, full particulars of their debts or claims and the names and addresses of their Solicitors (if any), to the undersigned, Christopher John Hughes, 10 Gully, Gully House, 2 Noble Street, London EC2N 7DQ.

The Liquidator of the said Company, and, if so required by notice in writing from the said Liquidator, are, personally or by their Solicitors, to come in and prove their debts or claims at such time and place as shall be specified in such notice, or in default thereof they will be excluded from the benefit of any distribution made before such claims are proved.

Dated 16th day of May 1991. C.J. Hughes Liquidator

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INTERNATIONAL NEWS

S Korea's PM resigns after wave of protest

By John Ridding in Seoul

MR RO JAI BONG, South Korea's prime minister, yesterday resigned in response to a wave of anti-government protests which have seen the largest demonstrations in Korea since the introduction of democracy in 1987.

President Roh Tae Woo indicated that he would accept the resignation, although formal acceptance and the naming of a successor has been delayed until today or tomorrow. A government official said yesterday a shortlist of three candidates had been drawn up.

Mr Ro Jai Bong's resignation is a setback for President Roh, who has been resisting mounting pressure to dismiss his prime minister. It is expected to prompt a broader cabinet reshuffle, involving four or five ministers.

The replacement of Mr Ro, regarded as a hardliner, has been one of the principal demands of opposition and dissident groups. But despite his resignation, these groups said that they would continue to hold rallies and protests until further demands are met.

The National Democratic Party, the largest opposition party, said that "a full scale

cabinet reshuffle should follow" and that it planned to go ahead with its mass rally this weekend.

Chonminyon, one of Korea's largest dissident groups said, "If the Roh Tae Woo regime continues with its present police rule, we are going to continue with our fight for democracy."

A spokesman for the group said reforms should include getting rid of plain-clothes riot police, abolition of the national security law and release of imprisoned dissidents.

Despite these claims, however, the wave of demonstrations, which have been fuelled by the death of a university student at the hands of riot police at the end of April, and which have brought almost 250,000 demonstrators onto the streets on several separate occasions since then, are believed to have peaked.

Mr Ro's resignation also reflects divisions within the ruling party. Mr Kim Young Sam, executive chairman of the ruling Democratic Liberal Party, regarded Ro Jai Bong as a possible rival presidential candidate and had pressed President Roh to dismiss him.

Rhetoric of co-operation heralds oil talks

Deborah Hargreaves reports on a flurry of meetings in the wake of the Gulf war

NEW friendships are being born in the wake of the Gulf crisis as oil industry executives embark on a round of meetings to talk about relations between oil producers and consumers.

On Monday Iran is holding a major international conference in Isfahan, its second largest city, where at least six ministers from the Organisation of Petroleum Exporting Countries (Opec) will debate industry topics with major oil companies and representatives from consuming countries.

Mr Carlos Andres Perez, Venezuela's president, has announced a joint initiative with President Francois Mitterrand of France to hold a summit for 20 countries to discuss oil market co-operation in Paris on July 1-2.

Other initiatives include informal round table talks scheduled by Sheikh Zaki Yamani, the former Saudi oil minister. This is likely to be held on Saturday in Geneva to

catch interest from some members of the industry on their way to Isfahan.

An Opec committee which prepared the agenda for the ministers' meeting on June 4 acknowledged the interest in a wider debate about industry issues as a way of promoting market stability. In addition, the International Energy Agency - the West's oil watchdog - whose ministers meet in Paris on June 3, has slated producer-consumer dialogue on its agenda.

The aims of these many initiatives remain nebulous, but underlying them is the recognition by Opec producers that they need western cash and technology to increase capacity over the next five years.

Opec wants to raise its production capacity by about 8m barrels of oil a day (b/d) to some 33m to 34m b/d by 1995 - an ambition that could cost up to \$120bn. There are increasing signs that the producers are willing to work much more

closely with international oil companies and, by extension, oil-using governments, than they have in the past.

What's more, Gulf producers, particularly Iran, are eager to cash in on the political kudos they won in the West by their ability to raise production and avert a serious oil shortage during the Gulf crisis.

The increasing rhetoric on co-operation has also been heralded by the closer relationship which is developing between Iran and Saudi Arabia in the shifting coalition of Opec politics. Iran has retreated from its former stance as one of the organisation's staunchest price hawks and, along with Saudi Arabia, champions the organisation's target price of \$21 a barrel.

Oil users are all interested in security of supply, which has traditionally meant a route outside the volatile Middle East. But producers also want to be assured of

security of demand.

One idea under discussion is that consumers could sponsor spare production capacity in an Opec country. That extra capacity would be theirs to call on in a crisis.

The US has gone part of the way down this route in its talks with Saudi Arabia on leasing oil to be held on US soil in its Strategic Petroleum Reserve. Some stocks from the SPR were released at the start of the Gulf war, a move that many in the market believed exacerbated the price collapse.

"These talks will be a way of discussing the practical steps that can be taken on the ground in actual projects," believes Mr Mehdi Vaziri, oil analyst at Kleinwort Benson in London. Most observers rule out an international commodity pact as unworkable and undesirable.

With Iraq and Kuwait likely to be out of the export market at least until the end of the year and with oil demand set

to rise later this year, Opec producers do not need to haggle much over production quotas right now. Demand appears to be rising at a rate that gives them all a chance to boost output without jeopardising their \$21-a-barrel target price.

Mr Vaziri forecasts an increase of at least 1m b/d in oil demand during the second half of the year without an upturn in economic activity in the US. Demand in the fourth quarter of last year was severely depressed by high prices and uncertainty about the outcome of the Gulf crisis as well as an extraordinarily mild winter in the US and Japan.

This gives Opec the chance to present a united and pragmatic face to the West in an extended dialogue on co-operation. But by the end of the year, when Kuwait and Iraq start exporting, the heat could be on again and the cartel could return to its fractious disputes of old.

300 held in Tunisia over 'foiled coup plot'

By Our Middle East Staff

THE Tunisian government announced yesterday that it had foiled a coup plot by Islamic fundamentalists and arrested 300 people, including 100 military personnel.

Mr Abdallah Kallal, the interior minister, told a news conference in Tunis that those arrested belonged to the Nahda (Renaissance) Islamic movement.

President Zine El Abidine Ben Ali sought to placate Tunisian fundamentalists after he overthrew Habib Bourguiba in 1987, but he refused to recognise Nahda as a political party and the authorities have cracked down on the movement in recent months.

Two students were reported killed two weeks ago during a wave of fundamentalist unrest in Tunisian universities.

Mr Kallal said the plotters, including officers with the rank of major, planned to seize power in concert with street demonstrations organised by Nahda in the coming weeks.

The organisers of the proposed coup had met in Hammamet on January 6 and intended to take over the defence and interior ministries, radio and television stations and the presidential palace, he said.

"We have thwarted this bloody plot," said Mr Kallal. "I can say that all the terrorist elements, except those who fled abroad, have been arrested."

He implicated four Nahda leaders living in exile in Algeria and France, including Mr Rachid Ghannouchi, the organisation's president, and claimed that French and Algerian officials were willing to help Tunisia resolve the affair.

The events in Tunisia will certainly be examined with interest in neighbouring Algeria, where the fundamentalist Islamic Salvation Front is accepted as a political party and is contesting a general election next month.

On Tuesday, a Tunisian court sentenced seven members of Nahda to life imprisonment for their part in an attack on offices of the Democratic and Constitutional Assembly, the ruling party, in which a guard was set alight and killed.

Britain baulks at giving ground to China

Talks about Hong Kong airport fail in Peking

By John Elliott in Hong Kong

TALKS between Britain and China on Hong Kong's plans for a new HK\$100bn (£7.5bn) international airport ended without agreement in Peking late last night after five days of intensive negotiations between senior officials.

Britain is believed to have refused to give China a wide degree of control over leading issues in Hong Kong as part of a deal which would include Peking's approval for the airport.

China, which regains sovereignty over Hong Kong in 1997, is understood to have rejected Britain's proposal that agreement be reached on the airport separately from the wider issues.

This demonstrates China's growing determination in recent months to use the airport impasse to gain wide influence in Hong Kong before 1997. Without China's approval, Hong Kong cannot raise international private sector finance for the project.

It appeared last night, however, that there might be more talks later. Both sides are to explain their views at separate press conferences in Peking this morning. Mr Andrew Burns, a senior diplomat from London who led the UK mission, will then fly to Hong Kong for consultations before returning to London.

China has shown its determination to try to control events in Hong Kong by lodging a formal complaint with the UK about a 15-year radio broadcasting licence granted two weeks ago to Metro Broadcast Corporation, a local consortium led by Mr Li Ka-shing's Hutchison Whampoa, John Elliott writes. The complaint has worried the government and local businessmen because it demonstrates that China intends to make its views felt on a broad range of business issues before 1997 when it regains sovereignty. This will slow down business decisions and could deter investment.

Top Hong Kong officials and the colony's executive council decided at emergency meetings late on Tuesday night not to offer further concessions. Earlier they had tried to meet China's concerns about drains on public expenditure by trimming the airport plans.

Private sector interests in Hong Kong are informally discussing mounting a new campaign if the British and Hong Kong governments decide there is no point in further talks.



South African police arrested Mrs. Winnie Mandela twice yesterday as she led women's demonstrations in support of black political prisoners on hunger strike. Reuter reports from Johannesburg. She was manhandled as for the second time, she screamed at riot police who dragged her away from a road junction that she and her support-

ers had blocked in central Johannesburg. Mrs. Mandela, 56, wife of African National Congress deputy president, Mr Nelson Mandela, was first arrested at dawn for trying to block the same street. She was freed from court after being charged with obstruction and resisting arrest, and was arrested for the second time barely two hours later.

Iraqis to leave city to US troops and returning Kurds

IRAQI WILL withdraw military and police forces from its northern town of Dohuk and allow coalition forces to enter, a US military spokesman said yesterday. Our Middle East Staff reports.

Captain Marcella Adams, a US official at Turkey's Incirlik air base, said Iraq had agreed to allow coalition troops to enter the city tomorrow, though she would not disclose the size of the entering force.

Dohuk, a provincial capital just south of the safety zone set up by the allies in northern Iraq for Kurdish refugees, is central to the operation to return Kurds to their homes. More than 200,000 who fled the Iraqi forces are believed to come from the city.

Allied forces have stopped short of entering Dohuk while it has been occupied by Iraqi soldiers and police, and many refugees have refused to return while the Iraqi forces remained.

Kurdish rebel leaders, meanwhile, said yesterday that final terms outlining a form of autonomy for the region could be reached with Baghdad within two weeks.

The question of the region's status over what it called an attack by a US ship on an Iranian vessel. The Pentagon spoke separately of an incident in which the Bahrain-based La Salle, returned fire when it was shot at by two ships in international waters in the Gulf on Tuesday.

AMERICAN NEWS

US insurance industry regulation under attack

By Nikki Tait in Washington

THE General Accounting Office, the investigative arm of Congress, yesterday sharply criticised the system of state regulation of the US insurance industry.

The GAO told a congressional sub-committee headed by Mr John Dingell, a Democrat from Michigan, that the adequacy of solvency regulations varied substantially between states.

Mr Richard Vogel, GAO assistant controller general, also said his office did not believe the National Association of Insurance Commissioners (NAIC) - the umbrella organisation for state regulators - had the legal authority or the political clout to institute a nationally acceptable

standard.

The GAO also complained about the speed at which troubled insurance companies are liquidated, and the lack of uniformity in reporting and accounting requirements; and the inability of state commissioners to oversee foreign holding companies and non-US based reinsurers.

The Dingell sub-committee has spent about three years looking at the state regulatory system and, to date, has not been impressed. This has led to widespread speculation that some form of federal supervision will soon be proposed.

The question of the regulation of insurers was given added topicality by last month's seizure of Executive

Life and Executive Life of New York, the two operating arms of California insurance group First Executive. This was the largest-ever insurance company collapse in the US.

Mr Vogel said "the NAIC should be commended for its efforts but it lacks the authority to compel states. The system is only as strong as its weakest link."

Yesterday afternoon, however, the NAIC defended its record and broadly opposed any central intervention. It told the Dingell sub-committee that it believed there was some scope for a federal role in the regulation of non-US insurers and backed a federal criminal statute to cover crime in the insurance industry.

US pact unlikely to dent Mexican distrust

A beneficial free-trade deal will not ease traditional antipathy, writes Damian Fraser

MR John Negroponte, US ambassador to Mexico, has like many of his predecessors embarrassed the Mexican government, enraged the Mexican left, and stirred up none too latent anti-American feelings.

The latest incident concerns the most sensitive of all subjects - the relationship with its northern neighbour if, and when, a free-trade agreement (FTA) is signed between the two countries.

"Mexico is in the process of dramatically changing the substance and image of its foreign policy," the ambassador is alleged to have written in a confidential memorandum obtained by the left-wing weekly newspaper Proceso. "It has switched from an ideological, nationalistic and protectionist approach to a competitive view of world affairs."

In the ambassador's view, a free-trade agreement would "institutionalise acceptance of a North American orientation to Mexico's foreign relations."

That last line particularly incensed the Mexican left. While Mexico's ruling party, the Institutional Revolutionary party, may have disappointed its supporters by pursuing a non-aligned foreign policy, doggedly upholding the principle of non-interference in other countries' affairs.

Mexico has a long record of

opposition to Washington's interventionist approach to dealing with Central America and the Caribbean.

Despite enormous US pressure, Mexico has maintained strong links with Cuba. In the 1970s, backed by new-found oil wealth, Presidents Luis Echeverria and Jose Lopez Portillo solicited new friends in the third world, many of whom were avowed enemies of the US. In the 1980s Mexico's support for the Sandinistas soured relations with the Reagan administration.

Under President Carlos Salinas de Gortari foreign policy, in tandem with changes in Mexico's economy, has undergone a decisive change.

Differences with the US over Central America have largely disappeared so that Washington is not impeding Mexico in hosting peace talks for both El Salvador and Guatemala and their respective guerrilla movements.

Mr Salinas appeared ready to send troops to the Gulf, before being shouted down by Mexico's anti-war opposition. The president has also spent almost six months pleading with the US to pass a free-trade agreement, and he has at least another year more of pleading to do.

This so-called "competitive" view of the world is not, however, driven by a sudden Mexican admiration for America.



Salinas orchestrated foreign policy changes

Mr Salinas, despite - or perhaps because of - being educated in the US, is no lover of the gringos. For the most part the policy change is determined by economic necessity; about 70 per cent of Mexican exports now go to the US, against just over 50 per cent in 1982. Mr Salinas's liberal reforms of Mexico's economy will only work if they attract US investment, capital and markets.

Mr Salinas has calculated - probably correctly - that there will be no big breakthrough unless Mexico moves towards the US both politically and economically. Luckily, President George Bush has made this as easy as possible;

the two presidents are said to be friends, and during the Gulf crisis President Bush called Mr Salinas frequently.

But where Mr Negroponte appears to be wrong is in believing the FTA will institutionalise changes in foreign policy. Mexican antipathy to the US, while perhaps receding as the two economies integrate, has a long history and will not be changed by one trade agreement.

More to the point, if an FTA is signed Mexico may well be more, rather than less free, to pursue its independent goals. One reason behind Mr Salinas's move towards the US politically is to secure economic favours. With an FTA, political horse-trading would become less necessary as Mexico, and US investors in the country, would have guaranteed access to the North American market.

Similarly an FTA will improve Mexico's relations with other countries keen to secure access to the North American market. Chile, Venezuela, the Central American republics and Colombia are all negotiating free-trade agreements with Mexico, in the hope an agreement will give them an edge in exporting to the US. While fears remain that Mexico is turning its back on them, Mr Salinas's free-trade overtures to just about every country in the continent seem to have

allayed most concerns.

The prospect of an FTA has also strengthened relations with Japan, the Pacific Rim, and Europe, none of whom have shown a great interest in Mexico in the past 20 years.

Mr Salinas's bank-rolled \$2.5bn (£1.44bn) project to reduce pollution in Mexico City; cynics interpreted it as a bribe to ensure an FTA does not discriminate against Japanese goods. Last week Mexico was finally admitted to the Pacific Basin group and, not least, the administration has signed a series of trade agreements with the EC. It has even become a shareholder in the European Bank of Reconstruction and Development.

These foreign policy initiatives are with first-world countries, marking the biggest break with Mexico's past.

Mr Salinas, unlike many predecessors, wants value for money from Mexico's foreign policy - even if it means ignoring the world's non-aligned countries, with whom Mexico has traditionally been linked.

But while this change is substantial, traditional Mexican distrust and disdain for the US will remain. As Mr Jose Juan Obregón, former Mexican ambassador to the US, says: "Don't forget, when they were shooting turkeys in Massachusetts, we already had our first university."

Colombian drug baron 'to surrender'

MR Pablo Escobar, leader of the Medellín drug cartel, plans to turn himself in within two weeks, according to a priest who has been serving as an intermediary in traffickers' negotiations with the Colombian government, AP reports from Bogotá.

Rev Rafael Garcia helped on Monday to secure freedom for two journalists held by the cartel. Mr Francisco Santos, editor of Colombia's biggest selling newspaper, El Tiempo, and Ms Marija Pachon, director of the Colombian Film Institute.

Mr Garcia later met President César Gaviria to discuss the possibility of Mr Escobar's surrender.

The priest, who saw Mr Escobar last week, said the drug baron wanted the government to protect him in prison after he surrendered. Mr Escobar, blamed by authorities for ordering hundreds of murders, has many enemies.

Last September Mr Gaviria offered to reduce jail sentences and cancel the extradition to the US of drug traffickers who surrendered and confessed at least one crime. Several traffickers, including the Ochoa brothers, Mr Escobar's colleagues, have turned themselves in.

Senate acts on funds for political units

By Nancy Dunne in Washington

THE US Senate has approved legislation which prohibits foreigners from giving money to or seeking influence over political action committees, which contribute to political campaigns.

The move comes amid rising concern over foreign influence on the US political process.

However, the 3.5m US employees of foreign-owned companies will still be allowed to form the politically influential committees, called PACs, which provide financing for national candidates.

This was a rejection of the argument that such employees could be subjected to pressure from their parent companies in making decisions about contributions.

The new provision, an amendment to campaign finance reform legislation, was passed on Tuesday night. It was introduced by Senator John Breaux, a Louisiana Democrat.

It had the support of foreign companies, whose representatives lobbied hard to prevent a more restrictive amendment backed by Senator Lloyd Bentsen, which was defeated.

Under existing regulations, PACs are prohibited from

accepting foreign contributions. Senator Bentsen complained that the rule was not monitored or enforced. He produced a study saying that 120 PACs of companies with significant foreign ownership had operated in the 1987-88 election campaign, contributing \$2.8m (£1.6m) to US candidates.

"I fear that a more insidious process is at work: direct or indirect contributions or material support from foreign states or entities," he said. "We need to keep American elections American."

Senator Breaux, former chairman of the Democrat Senate campaign committee, argued that many subsidiaries of foreign companies were run totally by Americans.

Shell Oil, located in Louisiana, employs thousands of US citizens, he said, who under the Bentsen amendment would not be allowed to contribute to PACs.

His legislation provides for fines or imprisonment for violations. It also directs the Federal Election Commission to require that regular PACs certify that "no foreign national has participated either directly or indirectly in the decision-making of the PAC."

Outcry over Argentine plan to stagger bonuses

PLANS by Mr Domingo Cavallo, Argentina's economy minister, to stagger payment of a bonus traditionally paid to all employees in June and December has aroused widespread anger and boosted opposition to his economic stabilisation programme, writes John Bachman in Buenos Aires.

Even normal trade union government trade unions object to the measure, as do members of the employers' association. People are angry that their bonuses, first granted under the rule of General Juan Perón, have suddenly been postponed while inflation continues to erode incomes. Yesterday 1,500 outraged pensioners tried to storm the supreme court buildings to demand increased pensions.

Mr Cavallo said that phasing payments throughout the year would ease potential inflationary pressures caused by the sudden injection of demand into an overheated economy. Inflation is already expected to start rising again in May.

However, economists say the real reason for Mr Cavallo's decision is that he cannot pay both the consolidated public sector bonus, estimated at \$600m (£248.8m), and honour June's \$440m foreign debt service bill.

The government had expected \$240m in loans from the International Monetary Fund. The money may only become available in August.

Congress must approve Mr Cavallo's proposal, and passage is likely to be far from easy.

Salinas dismisses attorney-general after prison riot

MEXICO's attorney-general has been fired after months of controversy over human rights violations and corruption in the federal police force, AP reports from Mexico City.

President Carlos Salinas de Gortari gave no reason for dismissing Mr Enrique Alvarez del Castillo yesterday, a day after the president publicly praised the attorney-general for his "loyalty, honesty, firmness and decisiveness."

Mr Alvarez del Castillo, who was appointed in 1988, was fired only days after fighting between rival drug gangs erupted in a prison in Matamoros, leaving 18 inmates dead.

The incident was an embarrassment to an administration that has put a high priority on the war against drugs.

Brazilian general strike falls short of objective

THREE of Brazil's biggest labour unions began a 48-hour general strike yesterday against the government's economic policy, but failed to paralyse the nation, Reuter reports from São Paulo.

São Paulo, the principal industrial city, was choked with traffic as commuters scrambled to find other transport after most bus and subway workings walked out at midnight.

In Rio de Janeiro, Brazil's second largest city, and Santos, home to Latin America's largest port facility, services appeared to be functioning normally.

Officials at international airports in Rio and São Paulo said they were operating normally and flights were on time.

Banks were functioning with reduced staff as many workers joined the strike. In downtown São Paulo about 40 to 50 per cent of small shops were open by midday.

Union leaders aim to pressure President Fernando Collor de Mello to change the economic policies that have slowed runaway inflation but plunged Brazil into its worst recession in years.

Earlier this month Mr Collor replaced the economic team after the resignation of Mr Zelia Cardoso de Mello, his controversial economy minister.

Mr Collor said, however, he would not make any radical changes in tough policies that have frozen wages and prices.

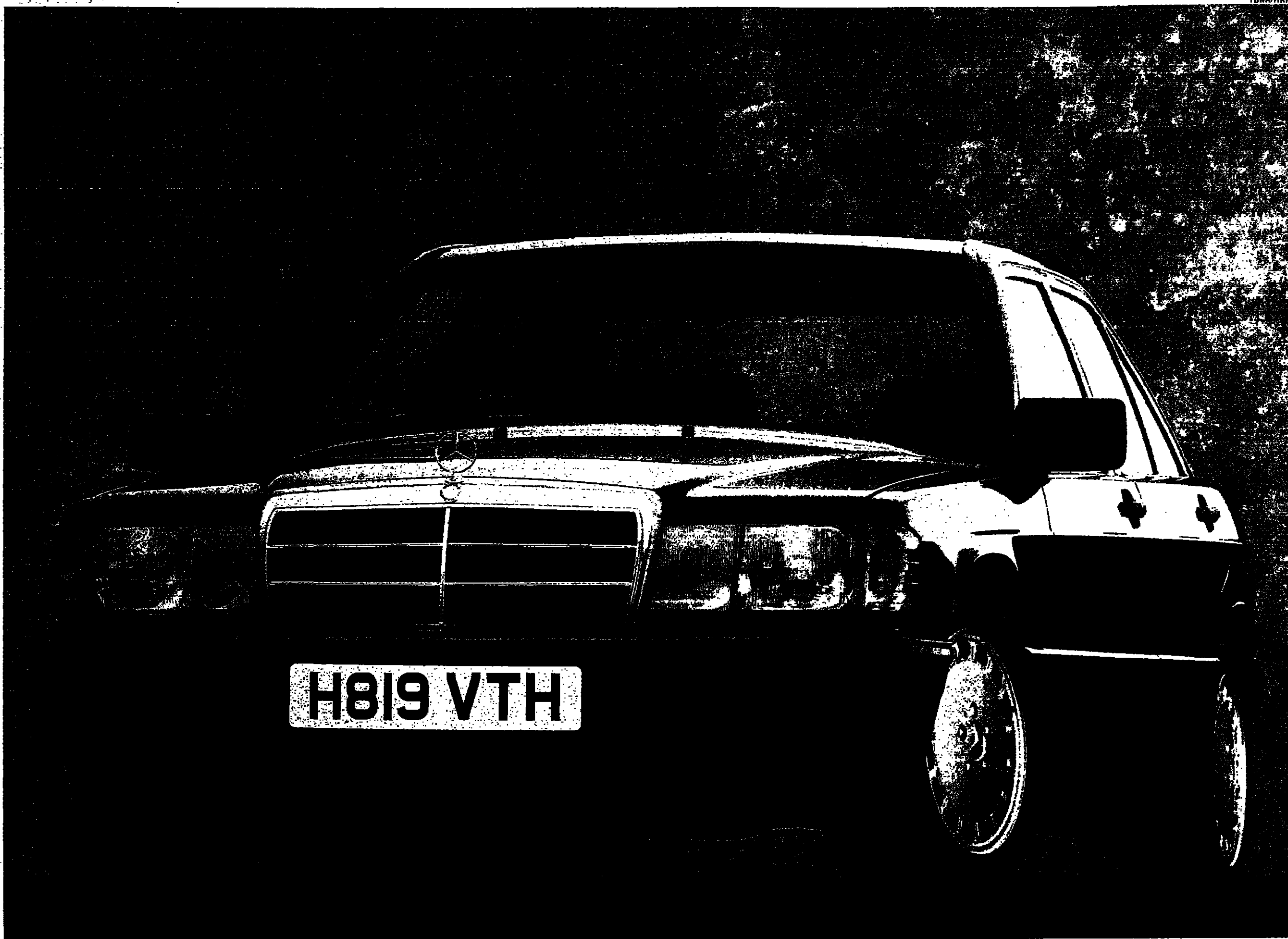
300 held in Tunis over 'foi coup plot' By Our Middle East

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190E with Sportline interior and handling packages: sports seats, lowered, stiffer suspension, wider wheels, 205/55 VR tyres.

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time you spend at the wheel, you'll be grateful for the stronger bite of bigger tyres and the added feel they give the higher-g geared steering. You'll also find the manual gear ratios well-attuned to the twists and turns of British roads. If, however, you like the car itself to do some of the work, the Mercedes-Benz four-speed automatic is one of the silkiest self-changing gearboxes available (a five-speed auto is available on the 24-valve mid-range models).

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UK NEWS

BR to apply for international telecom licence

By Hugo Dixon

BRITISH RAIL, the state-run network, is planning to apply for an international telecommunications licence in a move which will test the openness of the government's new telecommunications policy.

In its telecommunications policy document earlier this year, the government said that the exclusive rights held by BT, formerly British Telecom, and Mercury Communications to supply international telecommunications services would be abolished.

It qualified this, however, by saying that it was unlikely to grant new international licences in the short term and that it was premature to invite applications.

British Rail, nevertheless, has decided to apply for an international as well as a domestic long-distance licence.

Mr Peter Borer, chief executive of British Rail Telecom, said the company would like to provide a comprehensive service to its future customers.

British Rail's determination could cause difficulty for the Department of Trade and Industry. Ministers are unlikely to want to reject such an application as it could undermine their claim to have created the most open telecommunications market in the world.

The DTI, however, believes that the complex international accounting rates system, which determines how revenue from international calls is divided between operators, makes it difficult for new competitors to be introduced into the market.

Mr John Redwood, telecommunications minister, stressed

this point at a dinner earlier this week.

International services are one of the fastest and most profitable parts of the total telecommunications market. BT's profit margins on international calls are about 60 per cent and the market is growing at more than 10 per cent a year.

British Rail already has an extensive network of fibre optic cables laid alongside its tracks. It plans to develop this into a commercial business by forming a joint venture with as yet unnamed industrial partners with telecommunications expertise.

One way of providing international services would be for British Rail to link up with other European railway companies. The European railways have an embryonic project to construct a pan-European telecommunications network along their tracks.

However, Mr Borer made clear that British Rail's ambitions in international telecommunications went beyond the pan-European railway project. He said he wanted to be able to provide services to destinations outside Europe and that the European railway project was at its early stages anyway.

BT's latest official job loss figures, expected with tomorrow's annual results, are likely to play a crucial role in debates at the National Communications Union's annual conference which is due to start next week.

The 150,000-strong union is the biggest in BT. The conference will discuss the prospects of redundancy, job losses and the use of contractors.

Hurd tries to unite Tory MPs on Europe

MR Douglas Hurd, the foreign secretary, deployed all his diplomatic skills in the House of Commons yesterday to minimise the differences among Conservative MPs over moves towards political and monetary union in the European Community, writes Ivor Owen.

He was untroubled by an attempt by Mr Gerald Kaufman, the opposition Labour party's foreign affairs spokesman, to identify a three-way split in the Conservative ranks.

Mr Kaufman contended that Mr Hurd was ready to sign up for economic and monetary union, while other ministers favoured the two-speed option suggested by Sir Leon Brittan, the former cabinet minister and vice-president of the European Commission.

The third faction, Mr Kaufman suggested, included Mr John Major, the prime minister, who had "stirred up" 104 Conservative backbenchers on Tuesday to support a parliamentary motion opposing further erosion of the powers of the House of Commons.

Rejecting Mr Kaufman's assertions, Mr Hurd stressed that the motion referred to a compromise proposal by Luxembourg.

Like the prime minister, Mr Hurd stressed there were some matters in the draft treaty which would need "substantial change" if they were to secure the support of the British government.

Mr Nick Budgen, a Conservative MP who has criticised government policy on the European Community, warned of a "grave danger" that the House and the country would be left without leadership on economic and monetary union.

Economy contracts for third successive quarter

By Peter Norman, Economics Correspondent

THE British economy contracted for the third successive quarter in the first three months of this year. However, government figures showing a slowdown in the rate of decline suggested that a turning point may be near.

Preliminary estimates from the Central Statistical Office pointed to an inflation-adjusted 0.6 per cent drop in output-based gross domestic product in the first quarter, against that of the 1990 fourth quarter. This came after falls of 0.9 per cent and 1.4 per cent respectively in the fourth and third quarters of last year.

GDP is the broadest measure of economic activity in Britain.

covering output in the service and production industries as well as construction and agriculture.

Yesterday's figures, showing a first-quarter GDP decline of 2.5 per cent compared with the same period of 1990, strongly suggest that Britain is experiencing its second worst recession since the Second World War, although the current downturn is not as bad as that of the early 1980s.

However, other government figures reinforced the impression that the economy was declining at a slower rate in the first quarter. The provisional estimate of manufacturers', wholesalers' and retailers'

stocks, which the CSO measures in 1985 prices, showed a seasonally adjusted fall of 2.48m in the first quarter after de-stocking of £1.48m in the final quarter of last year.

CSO figures disclosed a £132m first-quarter increase in work in progress in the manufacturing sector after a £245m decline in the fourth 1990 quarter.

While reporting an overall 9 per cent drop in new construction orders in the first quarter, the Department of the Environment said new orders in the private housing sector were 7 per cent higher than in the fourth quarter of last year. New housing orders generally

lead recovery in other parts of the construction industry.

Treasury officials said they were encouraged by yesterday's figures which suggested that the pace of recession was decelerating.

Mr Bill Martin, chief economist of investment house UBS Phillips & Drew, said the data were consistent with the forecast of Mr Norman Lamont, the chancellor of the exchequer, for recovery around the middle of the year. "If anything, the figures suggest that the budget forecast of a 2 per cent contraction in GDP this year could be too pessimistic," he said.

Others warned against

euphoria, however. Addressing a conference in London, Mr Gavyn Davies, chief UK economist of Goldman Sachs, said the economy was probably "troughing" after a very severe recession and that the recovery will not be strong.

The GDP figures showed a 0.7 per cent drop in service industry output in the first quarter and a 1.1 per cent decline in manufacturing production against a 2.9 per cent rise in energy production and water supply.

CSO officials said the only war had a noticeable effect on service industries' output. Air transport was hit while there was also less use of railways.

Banking adjusts to the rigours of recession

David Lascelles examines the prospects for an industry squeezed by mounting losses

THE UK banking industry may be bruised by the recession, but it is also going through a healthy adjustment, in the view of the Bank of England.

In its annual supervisory report yesterday, the Bank paints a picture of an industry squeezed by mounting loan losses and costs, as well as by severe competition. "1990 was a difficult year for banks," it states, noting that two clearing banks (Midland and Standard Chartered) made a rare move to cut their dividends.

Nor were their problems unique. "Many internationally active banks have been re-examining their strategy and scale of operations, including their activities in London," says the Bank report.

The Bank, however, pinpoints developments which it suggests could produce a more robust banking sector in the years ahead.

Despite their bad debts, UK banks are strong by international standards, and they should not be constrained by capital adequacy requirements. Banks are also developing new sources of income from non-lending activities such as money transmission. These accounted for 39 per cent of the total last year, up from 37.7 per cent the year before.

The Bank notes that a combination of the recession and the retreat of many foreign banks has taken some of the pressure off competition.

This has enabled banks to raise their lending margins. Last year saw the first increase in international margins in

LARGE BRITISH BANKS: EARNINGS					
£m	1988	1987	1986	1985	1984
Percentages in italics					
Trading profits before bad debts	5.8	5.02	6.8	7.72	7.29
Pre-tax profits	3.84	3.73	5.67	6.96	2.81
Post-tax profits	2.48	0.09	3.66	0.50	1.36
Pre-tax return on equity	24.30	4.00	27.50	3.80	11.70
Post-tax return on equity	16.70	0.50	17.80	2.20	5.70
Return on total assets	1.20	0.21	1.51	0.19	0.60

over a decade, and the Bank expects to see both domestic and international margins widen this year.

Officials say this marks what could be a fundamental change in the economics of banking. With higher profitability, banks' access to the capital markets will also be improved and their balance sheets strengthened.

Looking ahead, the Bank expects the 1990s to be less "laddish" than the 1980s, which was a decade when innovation and international expansion overextended many banks. The Bank is encouraged

by the way bankers are talking of returning to their "core" markets, and curbing pointless international activities. It sees no evidence of "starry-eyed" plans to build pan-European banks in the EC single market.

London's role as a financial centre could suffer because of this as foreign banks pull back. There are already signs of a decline in London's international banking population. But the Bank said it would prefer to see smaller numbers if these were more durable.

Yesterday's report suggests the Bank has been busy in its supervisory role. Three banks

went into administration, the first bank failures for many years, and seven more had their licenses restricted, the highest number since 1985.

The Deposit Protection Board, which pays out depositors of failed banks, also had to borrow £50m from the Bank to cope with the failures. The Board will have to pay out £22m, of which about £20m will go to depositors of British & Commonwealth Merchant Bank.

Money supply and lending by banks and building societies increased faster than expected last month, but not sufficiently to indicate a revival in economic activity.

Bank of England figures showed a seasonally adjusted 0.5 per cent increase in M3 in April, against expectations that this narrow measure of money supply, which consists mainly of notes and coins in circulation, would rise by 0.1 per cent.

Competition rises 1,000% for London jobs

COMPETITION for job vacancies in London has increased by more than 1,000 per cent since 1980, according to the opposition Labour party, which today launches its latest attack on the government's handling of the economy, writes Alice Smith.

Labour says the rise in unemployment and the reduction in vacancies at Jobcentres in London means that while in January 1990 there were fewer than three people unemployed per Jobcentre vacancy, in March 1991 there were more than 25.

Mr Henry McLeish, an opposition employment spokesman,

has also produced a survey showing how the "economic collapse" has affected the capital's 84 parliamentary constituencies.

The survey, which forms part of a concerted campaign launched this week to strengthen Labour's standing in London, targets around 20 marginal Tory seats in the capital which will be prime Labour targets in a general election. The opposition's economic assessment shows these seats are among the areas particularly affected by the current recession.

"It is obvious that over the last decade the London econ-

omy has been declining, and a number of key indicators make it clear that the damage being done is completely out of line with what has been happening in other regions of the United Kingdom," Mr McLeish said.

Apart from London, other regions which have seen steep increases between the numbers of unemployed for each Jobcentre vacancy in January 1990 and in March 1991 are the south-east (350 per cent), East Anglia (299 per cent) and the East Midlands (241 per cent). Northern Ireland is the only region in which the comparison between the two dates shows an improvement from 1990.

Swissair Customer Portrait 97: Pervez Hayat Noon, managing director, Karachi, photographed in Geneva by François Deconinck.



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UK NEWS

Bulk of Irish talks to be held in Belfast

By Ralph Atkins and Our Belfast Correspondent

MR PETER Brooke, Northern Ireland secretary, made some progress yesterday by reaching agreement that the bulk of the discussions involving the Irish government would be held at Stormont parliament buildings outside Belfast, Northern Ireland.

The modest advance raised hopes that "round-table" talks could take place soon, but last night it was unclear if sufficient progress had been made for the first session between the province's political leaders to take place next week.

Mr Brooke has invited the province's main constitutional parties to attend meetings at Stormont on Tuesday.

His plan is for formal talks to start with the province's local parties discussing the internal government of the province, the second strand, when Dublin would enter, would cover relations between the north and south of Ireland.

So far, the identity of the independent chairman for the second strand, the terms of reference and standing orders have not been resolved. Work is expected to continue informally over the weekend.

Last night, Mr Brooke expressed satisfaction at the progress made but said he did not want to give "a more rosy hue than it deserves".

The nationalist Social Democratic and Labour Party had withdrawn from the talks process until Mr Brooke reached agreement with the Unionists, although they were in telephone contact yesterday. It is not yet clear whether they will be present on Tuesday.

All sides had previously agreed on strand two starting with a formal opening in London, then proceeding to Northern Ireland, before a final meeting in Dublin.

Until yesterday, however, the precise location in Northern Ireland had not been settled. It has been suggested that the Rev Ian Paisley, leader of the Democratic Unionist Party, was worried about using the parliament buildings because of protests there against the 1965 visit of Mr Sean Lemass, the then Irish prime minister.

CBI steps up pressure for cut in interest rates

By Charles Leadbeater, Industrial Editor

THE Confederation of British Industry, the employees' organisation, intensified its campaign for an immediate cut in interest rates yesterday. It accused the government of relying upon misleading official measures of inflationary pressures.

Mr John Banham, the CBI's director general, said the government's reluctance to cut interest rates was based on official measures of factory gate prices and wage settlements which overstated the extent of inflationary pressures in the economy.

The attack is the furthest the CBI has gone in criticising the government's response to the recession. Mr Banham stressed that the CBI shared the government's view that the defeat of inflation should be the main priority for economic policy.

However, the CBI is completely at odds with the government about whether economic conditions warrant a further interest rate cut.

The stepping up of the CBI's campaign for an interest rate cut came just a day after Mr John Major, the prime minister, had taken the opportunity of the confederation's annual dinner to warn industrialists not to listen to siren voices calling for policy to be relaxed.

Mr Major's message was reinforced last night by Mr Norman Lamont, the chancellor of the exchequer, who forcefully reiterated the government's determination to bring down inflation before it relaxed monetary policy.

Mr Lamont told a City of London audience that the government would stick to its guns until inflation was beaten and not declare victory when the battle was only half fought.

However, the CBI's governing council, in a statement issued after its monthly meeting, warned that the economy was not reviving but had weakened with the waning of euphoria about the end of the Gulf war and the transitory surge in retail sales at Easter.

Mr Banham said the government's resistance to an interest rate cut was based on inaccurate official measures of inflationary pressures.

He said the strongest inflationary pressure in the economy was coming from the public sector and prices that were within the government's control rather than from the private sector.

The CBI estimates that high interest rates have brought down private sector inflation to 3.5 per cent. It argues that inflation in areas such as fuel, transport, and household services such as telecommunications - where the government influence prices - is running at about 9.9 per cent.

The government's concern about wage inflation failed to reflect the rapid growth in the number of companies that have deferred pay settlements and in effect introduced pay pauses. CBI evidence shows the number of companies where pay pauses are in operation has risen from one in 10 last year to one in four this year.

Mr Banham criticised the official statistics on factory gate prices for failing to reflect widespread price discounting and price cuts in some sectors such as construction.

The CBI also believes the government has twisted its words by saying the committee "acknowledged that strict legal requirements were fulfilled". The committee's report said "strict legal requirements may have been fulfilled".

The DTI appears to have taken the view that there was little point in a point-by-point rebuttal of the committee's report. A spokesman said aspects not covered in its response had been "comprehensively and extensively" addressed during its inquiry.

Members of the select committee are annoyed at the government's failure to address its criticism of the DTI's valuation of Rover's assets, the deferment of payment for the sale and allegations that the DTI had not told the European Commission "the full story".

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BRITAIN IN BRIEF



UK sonar contract cancelled

The Ministry of Defence has cancelled a submarine sonar contract, thought to be worth £30m, with Ferranti-Thomson, the joint venture between Ferranti International and Thomson-CSF of France.

The Type 2075 sonar was being developed for a new batch of Upholder-class diesel-electric submarines but, under the government's plans for cutbacks in defence spending, no more of these submarines are to be built.

The first of the sonars was to have been delivered in October. Although the company will not now obtain the full value of the contract, it is understood to be satisfied by the cancellation terms negotiated with the MoD.

The Royal College of Nursing gave broad support to a controversial European Commission proposal that workers should have an 11-hour break between shifts.

Such a break is one of the proposals in the EC's social action programme, many aspects of which have been opposed by the UK government. The RCN said this could have a big effect on nurses' working patterns.

Nurses generally work a three-shift pattern each day, but there are no regulations covering minimum breaks between shifts.

The licensing round was announced last July to a large response of 115 applications from 80 companies, attracting some prominent first-time bidders. Newly privatised UK electricity companies, which have not been involved in the North Sea before, are expected to receive exploration acreage.

Mr Douglas Hurd, the foreign secretary, strongly defended a prominent foreign office official who was alleged to have imperilled Anglo-Israeli relations by making known his personal views.

According to newspaper reports, Mr David Gore-Booth, an assistant under-secretary of state, accused Israel of being no better than other Middle East states on militarism, democracy and human rights.

Mr Hurd said Mr Gore-Booth, who was attending a meeting of the council for the advancement of Arab-British understanding, had made it clear that some of his answers were an expression of personal views and not government policy.

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ARTS

CINEMA

Exposed: linguistic jokers and witch hunts

ROSENCRANTZ AND GUILDENSTERN ARE DEAD
Tom Stoppard

GUILTY BY SUSPICION
Irwin Winkler

MERMAIDS
Richard Benjamin

LIFE IS CHEAP BUT TOILET PAPER IS EXPENSIVE
Wayne Wang

WHITE FANG
Randal Kleiser

PROBLEM CHILD
Dennis Dugan



Atonement for McCarthyism: Robert De Niro in 'Guilty by Suspicion'

When a play becomes a film, one of two bad things can happen. The work can sit there inert and paralysed, Mickey Finn's the prosecution format in which it was born. Or it can be spuriously 'opened out' in the belief that a play becomes cinematic by showing characters getting in and out of taxis or having their vital conversations on a rollercoaster rather than in the kitchen-dinette.

Tom Stoppard, filming his own play, has opened out *Rosencrantz and Guildenstern* in the same way an insect photographer might open out a room of film after removing it from the camera. By exposing the work to the daylight of real forests and castles (in Yugoslavia, standing in for Shakespeare's Denmark), he destroys all its delicate, vivid originality of colour.

The uninflected naturalism of Stoppard's early *fresco* scenes is disastrous as a stylistic habitat for the hothouse dialogues. Bravely though Gary Oldman and the other players leave the room to the non-sequiturs and just-about-sequiturs, we wonder what these dandified linguistic jokers are doing in what looks like a come-to-Yugoslavia travelogue. And when we reach the castle after the sylvan prelude, the film decides to keep ruing around its rooms like some demented sightseer who believes that to stand still is to die.

Some of the St Vitus shenanigans are the best: notably the recurring joke of Oldman absent-mindedly making great scientific breakthroughs as he walks and talks. But mostly they prove that gnomish, double-decker dialogue does not wait well with perpetual-motion.

Stoppard's play was a meditation on marginality: a *Waiting For Godot* for two of the eternal extras, it thrives on a cut-dead setting out of from the outside world. The Player King, here played by Richard Dreyfuss, was the duo's only mediator with that world: a professional impostor who made their sense of isolation even more paranoid. By giving his heroes the freedom of the castle, nay of the country, Stoppard's film violates everything that made their dilemma comic and gave their self-questioning a cornered poignancy.

There are some consolations in the new-minded marginalia. Stoppard creates a lovely comic impromptu on board ship, with R and G rescued from murder by a collision with a pirate galleon. And Stanley Myers's surreal credit titles music, for piano, guitar and howling dog, sets early parts high. But for the most part one is left pondering Stoppard's reported surprise at how well his play works as a film. How would he know? He has yet to make one.

Nigel Andrews

Guilty by Suspicion is a powerful piece of cinematic atonement, a rare attempt by Hollywood to deal with its darkest hour, the McCarthy witch hunt. Irwin Winkler, the veteran producer here making his debut as writer-director, proves himself to be worthy of this difficult task, teaming with Robert De Niro to fashion a coherent, honest film about an ambiguous, deceitful era. De Niro plays David Merrill, a driven young director about to start filming a major project

for Darryl Zanuck. All he needs to do is kowtow to the dreaded House Un-American Activities Committee, naming the names of a few friends in order to show himself to be politically correct. When he balks, Merrill's career is abruptly halted. Hounded mercilessly by the F.B.I., he watches in helpless rage as family and friends fall apart. Inevitably, the subpoena comes, forcing him to choose between honor and his own skin.

Winkler skillfully exposes the deceit inherent not only in McCarthy's headhunting but also in the Hollywood big wig who sold out some of the most talented people to please the Committee. Though somewhat lacking in nuance, the film is fuelled by a cogent script and efficient direction. De Niro is superb, less man than normal but just as powerful. He has a remarkable scene in which, allowed to direct a schlock western after months in the wilderness, he establishes Merrill's genius for making a mess of it. He speaks in sassy aphorisms rather than real dialogue. Ryder doesn't seem to know whether or not to take her character seriously, playing her as a winsome, sexually budding teenager one moment then showing up in the next scene as a flake who wants to be Joan of Arc in bobby socks. Hoekins mugs heroically but his charm seems as superficial as the film's endlessly melodramatic ending.

Mermaids is the type of film that sinks or swims on the backs of its characters, here in the promising form of Cher, Winona Ryder and Bob Odenkirk. Unfortunately, as the title

suggests, they never really become human, making for a film that flounders hopelessly in a sea of sentiment.

Cher plays Mrs Flax, an off-beat, rebellious woman about five years ahead of her time (1963). Ryder is her stuffy teenage daughter who fights her carnal desires with plans to become a Catholic saint. Mother and daughter squabble continually, especially when sister Hoskins tries to make a family out of them. Director Richard Benjamin opts for a leisurely, hands-off approach to all of this, letting his actors interact almost randomly. When he achieves the odd skillful touch it comes as a shock, such as the beautiful scene when Ryder recalls watching a solar eclipse with her father.

Generally, however, it's the actors who rule, and they make a mess of it. They have traits - Odenkirk, Ryder wears wellies instead of saddle shoes - but no souls. Cher lacks the early nobility that marks her best work. She speaks in sassy aphorisms rather than real dialogue. Ryder doesn't seem to know whether or not to take her character seriously, playing her as a winsome, sexually budding teenager one moment then showing up in the next scene as a flake who wants to be Joan of Arc in bobby socks. Hoekins mugs heroically but his charm seems as superficial as the film's endlessly melodramatic ending.

Wayne Wang's *Life Is Cheap... But Toilet Paper Is Expensive* is not a film for the squeamish. Severely handicapped, graphically slaughtered duck-

lings, porno photos of pregnant women and a meal of human faeces feature prominently in this bizarre trip through modern Hong Kong. Viewers who can stomach these excesses, however, are in for a strangely engrossing slice of cinema virtuosity from one of America's most inventive filmmakers.

Wang's film opens with a nameless hero (Spencer Nakasako) arriving in Hong Kong with a suitcase handcuffed to his wrist. His job is to deliver the goods to a Triad boss, a task complicated by a ceaseless array of weird characters and bizarre incidents. Plot is continually set aside to provide glimpses of city life, including a sales pitch by a prostitute in a gas mask and an interview with real-life billionaires in front of their pink Rolls Royces. Wang's digressive, quasi-documentary style suits his subject well, though he has the good sense to pick up the threads of his story at the end, when our hero loses the suitcase, gets the girl (she's a lesbian) and is eaten that fecal feast to escape. Tasteless, perhaps, but certainly hard to ignore.

White Fang seems to have been made in a time warp, springing from the golden era when Disney made hand-drawn, wholesome, enjoyable adventure films for youngsters. This faithful adaptation of Jack London's story of a boy and his wolf in the Yukon Gold Rush perfectly captures not only London's rough and ready world, but also a long lost art of moviemaking for young people in which simple storytelling and reassuring values filled the screen. Even the pit bull who savages White Fang seems to have been chosen for his gentle, friendly nature. One has to wonder what a generation raised on Spielberg's comic dreams and Bart Simpson's bad attitude will make of all this.

They'll probably prefer *Problem Child*, the story of a seven-year-old who terrorizes his adoptive parents. Junior (Michael Oliver) is an elfin terminator who ravages cats, destroys birthday parties and bludgeons tormentors with a baseball bat. The first ten minutes are fairly funny, but after that director Dennis Dugan resorts to the *Jon Landis* theory of comedy - when the going gets tough, wreck some cars. The film's final image is a close-up of a dog passing wind. A decade ago Hollywood decided that comedy should be geared to the seven-year-old intellect. Now they're making movies about seven-year-olds. One trembles at what's to come next.

Stephen Amidon

Le nozze di Figaro

VIENNA FESTIVAL AND GLYNDEBOURNE

At last Vienna has something worthy of the Mozart bicentenary. Before Jonathan Miller's new staging of *Le nozze di Figaro* at the Theater an der Wien, there had been precious little to celebrate. But Miller has had a triumph - and Vienna, unusually, has acknowledged it from every quarter. His achievement (how simple in practice) is to have presented *Figaro* as a living organism of 18th century social politics - not frozen in the past, dry or analytical, but pulsating with humanity, humour and historical authenticity.

The setting (decor by Peter Davidson) is a chateau of the Ancien Régime, sepia-coloured, sparsely-furnished and evidently in need of refurbishment. The costumes (by James Acheson, who also worked on the film *Lizbeth Dangereuse*) are inspired by the 18th century French painter Chardin - corseted waists and white caps for the women, breeches and riding coats for the men. This is the visual context for a day in the life of the Almazov household - a place with a past and a present, an upstairs and downstairs, where life goes on beyond the immediate foreground, where seduction, conspiracy and confrontation are part of daily routine.

All this is established in the opening scene, set in a backroom cluttered with tailor's dummies, wig-stands and a heap of ironing. The exchanges of *Figaro* and Susanna - each competing for the other's attention while preoccupied with their own tasks - suggest a relationship that has had ample time to settle into a domestic pattern. At the end of the act, in the production's most memorable *couplet de théâtre* - we are led round the stage turntable, through corridors and antechambers, past cleaning ladies and doormen, to the bed-chamber of the Countess, who hides good night to her children in the orchestral introduction to "Porgi, amor". When the Count bursts in, his muddled apparel and retinue tells us he is fresh from the hunt. Social distinctions abound: the Countess dictates her letter from the comfort of an armchair, while Susanna has to write from a standing position, leaning over a pile of books. The peasants are awkward rustics, overawed by grand surroundings. And the Count clearly has *Figaro* on the hop.

Miller builds on this subtext with fluent, often uproarious ensemble and sharp character portrayal. The reclusives unfold with the snap and crackle of realistic conversation. The imbrolios of the second and fourth acts are deftly handled, even if the steps under the chateau facade make an implausible setting for a night-time assassination of the finale. There are mannerisms - the way the Count fidgets with a loose strand of hair, or Don Curzio's stammer, which is fast becoming a *Figaro* cliché. But they are few and far between.

In an ideal world, one would match this visual authenticity with an original instrument orchestra, whose textures and timbres could be heard to advantage in the raised pit of this lovely, intimate theatre. The Vienna Philharmonic offers the very best alternative. The playing under Claudio Abbado is Viennese Mozart tradition at its best: snappy and sinuous, with frequent shafts of light in phrasing and balance. Only the occasional squariness of tempo suggests Abbado is still working his way into the score.

As the Count, Ruggero Raimondi

dominated the performance with his comic gifts, piercing eyes, roving hands and masterful verbal inflections. Marie McLaughlin, in beautiful, blooming voice, was the vivacious Susanna. Lucio Gallo's *Figaro* was crisp, efficient and likable. Cheryl Studer was not flattered by the Countess's pudding of a costume, and is still short of confidence in her two arias. Gabriele Sima was the aristocratic, adolescent and credibly masculine Cherubino. A slippery, camp Basilio from Heinz Zednik, Rudolf Mazzola's crusty Bartolo and Margarita Lilowa's Marcellina made up a cast of uniform strength.

Andrew Clark

Glyndebourne offers the six great Mozart operas this summer, two of them, *Così fan tutte* and *La clemenza di Tito*, in new productions. The *Figaro* that opened the festival on Tuesday is not, unfortunately, a new one but a revival of the staging that Peter Hall contrived two years ago with designs by John Guter. Hall having severed his connections with Glyndebourne, it has been rehearsed this time by Stephen Medcalfe.

Medcalfe has been able to do little with the look of the thing, its utter lack of sense of place, or social focus - where for instance has the opera been set: in Seville or, as the shut-

briskness and style, though he does not command the dramatic scale of each act in a way that might compensate some of the production's shortcomings.

But there is still the mismatch between the period orchestra and the more hit-and-miss vocal style that Max Loppert noted here in his review of the premiere. Or, as the production is rationed to an appoggiatura here and there, until the reprise of "Dove sono" suddenly blossoms into full fig. Most of the voices are light enough, though, to take full advantage of the slimmer-down sound.

The best of the cast, by a good measure, are the *Figaro* of Alan Opie and Susanna of Alison Hagley. In a production that, if it does anything at all, does it over the top, Opie's intelligence is rationed to an appoggiatura here and there, until the reprise of "Dove sono" suddenly blossoms into full fig. Most of the voices are light enough, though, to take full advantage of the slimmer-down sound.

Jeffrey Black's malevolent



Alan Opie and Alison Hagley at Glyndebourne

Count pushes every phrase too insistently, as if anger and frustration had to be stamped on everything he sings. The pale, rather indistinct Countess of Gunn Bohman only came into her own with "Dove sono", but did so with enough presence to suggest that in a more sympathetic staging she might be full the role much everyone comes on, sings his or her aria on the token green sward, and disappears into the shadows. The central acts are tauter, and show some signs of pairing music and action, but the dramatic temperature never rises above tepid.

It was this production in 1989 that brought authenticity to Glyndebourne; the Orchestra of the Age of Enlightenment replaced the London Philharmonic's Fourth Symphony and they do so again for the revival. (They are also booked for the new *Così*, which opens tomorrow.) Period instruments have to work hard against this dry acoustic; they lack the power to project of their modern counterparts. But the gains in textural clarity, rhythmic articulation and colour (such as bassoon lines, such precise horns) are immense, and Andrew Davis conducts with decent

This production uses a full cast, without ever making a virtue of it, so that the lively Marcellina of Susan Bickley and creepy Basilio of Ugo Benelli both get their fourth-act arias but can add little to the dramatic sum total. The Barbina of Julie Bastin, a distinguished singer making his Glyndebourne debut, but nevertheless a strange piece of casting; with gestures that would reach the back of the Opera Bastille, he comes on far too strong in this context. The best of the singing decisively outweighs the worst, but the same cannot be said, alas, for the production.

Andrew Clements

Waiting for the Psychic

GATE THEATRE

One hundred years on from Chekhov, women wait in an apartment for something to happen. But this time around, it does. The Ermolov Theatre brings Shadrin Shadrin's 1986 *Waiting for the Psychic* to the Gate in an exciting and explosive production. The Ermolov, founded by the actress Maria Ermolova, has presented classics to Moscow since 1926.

The scene, Tbilisi, Georgia. Tamiko and her slightly younger sister Ketino await the arrival of a famous psychic. Two friends drop in: a bullying teacher called Daredzhani, and a young air-leader, Ketino's boyfriend. The evening begins slowly, as Ketino's boyfriend telephones and she prepares to go out. The longer they wait for the psychic, the more champagne they drink. Tika imagines herself both married and pregnant, and starts to hallucinate.

Ketino tries to leave to see her boyfriend, but her sister has locked everyone in.

Then the evening takes off: screams, accusations, fights. After Ketino emerges from the kitchen brandishing an axe, she has to be tied up. Eventually Ketino goes out, but soon returns. She leaves in a drunken stupor, falls down the stairs, and hobbles back. Finally, Ketino plays a tape of the psychic's seances; and this calms them into a trance. When they emerge from that, they behave as if nothing had happened.

Shadrin's play makes the point that life is not a rehearsal. The older women lament over lost opportunity, negotiate an acceptance with their condition, and try to prevent their younger companions from repeating their mistakes. Secondly, it shows people

refusing to take charge of their own lives, waiting for the psychic to tell them of the future instead of carving one out for themselves. Thirdly, as the domestic violence escalates, the tragedy turns into a nasty farce, curtailed only by the psychic's vicarious intervention on stage, a dose of Huxley's *Somerset*. Shadrin leaves the action open to wide metaphorical interpretation. In post-perestroika Georgia, the search for truth has become the search for identity. The psychic represents the women's undefined yearning for political, personal and personal fulfilment; the apartment their beleaguered social situation; and their champagne party a kick at misery. The gloomy conclusion returns the women to humdrum existence.

Waiting for the Psychic is performed in Russian; there is no translation, but

the programme helps. The director, Pina Vargina, orchestrates the action precisely, and curiously - if one has no Russian - one notices the non-verbal acting much more acutely: the laughs, frowns and gestures of those who are not speaking.

This is a virtuoso team performance, but Natalia Malayeva (Tamiko) and Valentina Ivanova (Daredzhani) are exceptional, catching their characters on the cusp of middle age, just as dreams cease to realities.

See *Waiting for the Psychic* if you can. Debut of actress Ketino from *Girl Crazy*. With love to lead the way I've found more clouds of grey, Than any Russian play, could guarantee. The Gershwin never mentioned plays from Georgia.

Andrew St. George

INTERNATIONAL ARTS GUIDE TODAY'S EVENTS

BERLIN

Staatsoper unter den Linden 19.00 La traviata. Tomorrow: Michael Gelin conducts Pelléas et Mélisande. Sat: Die Zauberflöte. Sun: Les contes d'Hoffmann (2004 782)

Komische Oper 19.30 Jochen Kowalski sings title role in Glustino. Tomorrow: Cav and Pag. Sat: open day from 10.00, with guided tours, public rehearsals and exhibition of costumes, plus an evening performance of Entführung. Sun: Zauberflöte (2292 555)

Deutsche Oper 19.30 Rebecca. Copley sings title role in Marion Lescaut. Tomorrow: concert celebrating 20th anniversary of Berlin Sing-Akademie. Sat: Trouvatore. Sun: Tristan und Isolde with Gwyneth Jones and René Kollo (3410 240) Schauspielhaus 20.00 Minifades Caridis conducts Berlin Symphony Orchestra in Strauss' Also Sprach Zarathustra and Marcel Dupré's Organ Concerto, with Heiner Kühner, also tomorrow and Sat. Sun at 17.00: Bach's Matthew Passion (2272 281) Philharmonie Kammermusiksaal

20.00 Carlo Maria Giulini conducts Berlin Philharmonic Orchestra in Mozart's last two symphonies. Repeated tomorrow, Sat and Sun at 11.00 (2614 993)

CHICAGO

Orchestra Hall 20.00 Daniel Barenboim conducts Chicago Symphony Orchestra in Richard Strauss' Violin Concerto, with Isaac Stern. Repeated tomorrow at 13.30, Sat and next Tues. Tomorrow at 19.30 Dave Brubeck Quartet (435 8666)

THE HAGUE

Dr Anson Philipsaal 20.15 Janos Furst conducts Residentie Orchestra in Haydn's Symphony No 65 and Rouse's Third Symphony, with Gil Shaham soloist in Brahms' Violin Concerto, also tomorrow (3608 810). The programme is repeated on Sat in Utrecht

LONDON

MUSIC AND DANCE Covent Garden 19.30 David Bintley's new full-evening ballet Cyrano with a score commissioned from Wilfrid Josephs, and a cast including Irek Mukhamedov and Viviana Durante (240 1068) Coliseum 19.30 Charles Mackerras conducts David Pountney's production of The Cunning Little Vixen, with Lesley Garrett in title role and Norman Bailey as The Forester. Tomorrow: Stephen Oliver's new opera Timon of Athens. Sat: Peter Grimes (836 3161)

Royal Festival Hall 19.30 Montserrat Cabellé sings opera arias. Tomorrow: Charles Mackerras conducts Dvorak's New World Symphony with London Philharmonic. Sun: Gennadi Rozhdestvensky conducts BBC SO in Elgar's Enigma Variations, plus works by Britten and Prokofiev (928 8800) Queen Elizabeth Hall 19.45 Leon Lovett conducts English Baroque Choir and Orchestra in all-Mozart programme. Tomorrow: Hariprasad Chaurasia plays Indian flute music. Sat: Alban Berg Quartet plays Bartok and Mozart (928 8800) Barbican 20.00 A Night in Seville: Tennessee dance music, also Sat. Tomorrow: Riccardo Chailly conducts Royal Concertgebouw Orchestra in Bruckner's Fifth Symphony. Sun: Henry Mancini in concert (838 8891)

THEATRE Popular West End shows include Carmen Jones, Oscar Hammerstein's musical update of Bizet, in a lavish production by Simon Callow (Old Vic); The Homecoming, a Polish revival of Pinter's disturbing comedy (Comedy); Caryl Churchill's play Top Girls, directed by Max Stafford-Clark (Royal Court); Matador, a new musical directed by Elijah Moshinsky and starring Stefanie Powers (Queens); and Anouilh's The Rehearsal (Garrick). Phone Theatreline: Plays 0636 430695 Musicals 0636 430690 Comedies 0636 430691 Thrillers 0636 430692

MUNICH Staatsoper 20.00 Valery Gergiev conducts Johannes Schaff's new

production of Boris Godunov, with a cast led by Pasha Borchuladze, Kenneth Riegel, Kurt Moll and Astrid Urmy, also Sun. Tomorrow: Gennadi Rozhdestvensky conducts Tchaikovsky's The Maid of Orleans. Sat: Die Zauberflöte (221316). Events in the Philharmonie this weekend include a Munich Philharmonic Orchestra concert with Sergiu Celibidache on Sat, and a Philharmonic Chamber Orchestra concert on Sun (4808 614)

NEW YORK

Metropolitan Opera 20.00 American Ballet Theatre production of La Bayadere. Tomorrow and Sat: triple bill including Kenneth MacMillan's Concerto (362 6000) New York State Theater 20.00 NY City Ballet in works by Balanchine, Peter Martins and Robbins/Tharp. Also tomorrow, plus matinee and evening performances Sat and Sun (870 5570) Avery Fisher Hall 20.00 Zubin Mehta conducts New York Philharmonic Orchestra in Guerillero, also tomorrow and next Tues. Soloists include Susan Dunn, Gary Lakes and Hans Hotter.

These are Mehta's final performances as music director of the Philharmonic (874 2424)

PARIS

Châtelet 20.00 John Eliot Gardiner conducts L'Ulisse Pasquasi's new production of Die Entführung aus dem Serail, with the English Baroque Soloists, Monteverdi Choir and a cast led by Luba Orgonassova as Constanze. Runs till June 2,

with next performance on Sun. Tomorrow: William Christie conducts concert performance of Alcione by Lully with the chorus and orchestra of Les Arts Florissants. Sat: Chailly conducts the Concertgebouw Orchestra in Bruckner's Fifth Symphony (4028 2840) Salle Pleyel 20.30 Semyon Bychkov conducts Orchestre de Paris in Cinderella music by Rossini and Prokofiev, plus Mozart's Piano Concerto No 20 with Radu Lupu. Repeated tomorrow and Sat (4563 0799)

Centre Pompidou 20.30 Mark Foster conducts Ensemble InterContemporain in new works by Martin Matalon, Jean-François Durand and Alejandro Vinas, repeated tomorrow (4260 9427) Théâtre de la Ville 20.30 Shijima, Japanese ballet by Ushio Amagatsu, also tomorrow and Sat (4274 2277) Théâtre des Champs-Élysées 20.30 Mark Morris Dance Group, also tomorrow and Sat (4720 3637)

ROME

Teatro dell'Opera 20.30 Katia Ricciarelli sings title role in Puccini's Iphigénie en Tauride, also Sat and next Tues. Tomorrow and Sun: Rigoletto with Juan Anderson and Leo Nucci (483641)

STOCKHOLM

Royal Opera 19.30 Leif Söderström's production of Carmen, sung in Swedish. Tomorrow and Sat: opera concert. Sun: Drottningholm season opens with first performance in

modern times of J.C.F. Haeffner's Electra, conducted by Thomas Schuback, with Anita Soldin in title role (248240)

STRASBOURG

Palais des Congrès 20.30 Theodor Guschbauer conducts Strasbourg Philharmonic Orchestra in Schumann's Fourth Symphony and Rouse's Petite Suite, with the Labèque Sisters soloists in Martin's Concerto for Two Pianos. The programme is repeated tomorrow (8837 5777)

VIENNA

Staatsoper 19.00 Ivan Fischer conducts Die Entführung aus dem Serail, with a cast including Robert Gambill as Belmonte. Tomorrow and Sun: Arnold Oestreicher conducts Ponnelle production of Lucio Silla, with Edita Gruberova, Ann Murray and Thomas Moser. Sat: Nikolaus Harnoncourt conducts Idomeneo (Konzerthaus 19.30 Arditi Quartet plays new string quartets by Friedrich Cerha, Thomas Parnes and Michael Maurer, also tomorrow. Sat: Georges Pretre conducts Vienna Symphony Orchestra in Mozart and Beethoven (7124 8860) Jugendtheater 19.00 Vienna Festival production of Die Zauberflöte. Runs till June 1 (586 1678)

WASHINGTON

Kennedy Center Concert Hall 20.30 National Symphony Orchestra Pope with Johnny Mathis, also tomorrow (487 4800)

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Thursday May 23 1991

Pipe dreams in Brussels

SMOKING IS a health risk and should be discouraged. The medical evidence against the habit is so overwhelming that there is widespread popular support for effective measures to curb tobacco consumption. However, the European Commission's proposed Community-wide ban on tobacco advertising is the wrong way to tackle the problem.

The EC has already agreed to prohibit such advertising on cross-frontier television and all 12 countries restrict it in domestic media. Yet these curbs and the means used to implement them vary: some countries have imposed total statutory prohibitions, while others rely on more selective limitations negotiated with the tobacco industry. Mr Vasso Papandreu, the social affairs commissioner, contends that such differences are incompatible with the Community's single market and wants the rules harmonised to outlaw all tobacco advertising except at the point of sale.

Her proposal is misconceived. First, it is too unwieldy to be workable. In seeking to curb "indirect" advertising by prohibiting the use of cigarette brands to promote other products, and vice-versa, it would create any number of grey areas and a field day for lawyers. Still more quixotic is the proposed ban on the display of brand names and logos at public and sporting events sponsored by tobacco companies. Consistency would require censorship of press and television pictures of events in non-EC countries where such practices are permitted.

Unconvincing efforts

Much the most serious objections, however, are that this is an area in which EC legislation has no valid role, and that Brussels' efforts to impose harmonisation risk distorting the Community's institutional procedures. The commission's efforts to justify its proposal as an attack on intra-EC trade obstacles - rather than on health grounds - are unconvincing. Rather, its choice of tactics seems inspired by opportunism, since Community rules demand that health legislation be endorsed unanimously by the Council of Ministers, while single market

measures require approval by a qualified majority vote. Obviously, the latter avenue offers the commission a better chance of getting its way.

Mrs Papandreu argues that governments with the tightest restrictions on tobacco advertising could seek to enforce them by blocking imports of publications from other EC countries operating less stringent regulations. Such obstacles to trade, she contends, would be legal under Article 36 of the Rome Treaty. This entitles EC members to restrict or prohibit imports on grounds including public morality, order, safety and health protection, provided such measures are not arbitrary or disguised restrictions on trade.

Court challenge

Whether Article 36 could legitimately be invoked in such cases is debatable: attempts to do so would almost certainly face a challenge in the courts. A much more important point, however, is that the commission is unjustified in seizing on this article as a pretext for imposing EC-wide legislation. If some EC members choose to place tighter curbs on tobacco advertising than others they are entitled to do so, provided the rules are enforced even-handedly on domestic and foreign media. But that in no way justifies attempts by Brussels to harmonise regulations across the Community at the level of the most restrictive country - an approach which in any case directly conflicts with a guiding principle of the single market programme. The same arguments could be used to support an EC-wide prohibition on contraceptive advertising, on the grounds that such a ban exists in Ireland.

The issues underlying the tobacco advertising row have little to do with health, as the commission has tacitly acknowledged by its choice of tactics. The central question concerns the most appropriate level at which decisions should be taken in the Community. In this instance, logic and common sense dictate that decisions be left to individual governments. Brussels should recognise that using questionable methods to ram through legislation of dubious value is no way to advance integration.

How not to connect to BT

THE UK government's claim to have created the most open telecommunications market in the world is beginning to look exaggerated. Although most exclusive rights held by BT and Mercury Communications have been abolished, it seems that the fine print of the government's new policy may allow BT to squish its rivals.

The fine print concerns how much competitors should have to pay for interconnecting their networks to BT's. Interconnection matters because entrants will start off by building only partial networks and will thus have to rely on BT to pick up calls and deliver them to their final destinations. If the interconnection charges are set too high, BT's interconnection matters because entrants will start off by building only partial networks and will thus have to rely on BT to pick up calls and deliver them to their final destinations.

Earlier this year, Ofel, the telecommunications regulatory body, set out its proposals for how interconnection charges should be calculated. Following protests from the industry, Ofel has postponed a decision until next month. Although the issues are highly complex, a number of matters are clear.

First, it is unacceptable that an issue of such importance should be decided behind closed doors. Second, although Ofel has a hard task in picking the right figure, the damage to the public interest in erring in BT's favour would be greater than the reverse. If the charges were too low, rivals who are more inefficient than BT may be able to flourish because BT has been unfairly handicapped; but if interconnection charges are too high, no competition will develop.

Double danger

There is a double danger. If BT is able to overcharge its rivals for access to its local networks, they will not only be hurt through the higher charges. BT could also use the payments to cross-subsidise its own long-distance operations. Ofel's aim should be to create conditions in which efficient new competitors can come into the market. But as things stand, it may actually be erring in BT's favour. Not only will competitors have to pay BT for using its network; they will also have to pay an access charge to contribute to the losses BT incurs in running its

local networks.

There seems little doubt that BT faces a deficit in running its local networks. Political pressures are responsible for BT keeping its line rental charges at a low level, so it is reasonable that competitors pay a fair share of the deficit. But the procedure by which Ofel is proposing to calculate this deficit - taking BT's line rental and connection revenue and subtracting its costs for local networks - is highly inflated because Ofel is relying on BT's own methods for allocating costs between its different services.

Thorough investigation

Moreover, the benefits may be widely underestimated. The gain to BT of having lines into 25m homes and offices goes far beyond its line rental income. Although its customers are not captive, they are more likely to choose BT than its rivals when they make long-distance calls and buy telecommunications equipment.

The best way of resolving the issue would be for Ofel to refer it to the Monopolies and Mergers Commission to ensure a thorough investigation. The MMC should not limit itself to accounting technicalities but should also examine BT's structure - in particular, the fact that it runs both local and long-distance networks. It is because the company operates in both parts of the market that excessive interconnection charges, if they were to be permitted, would be so likely to distort competition by permitting BT to cross-subsidise other parts of its business.

The US, which has a similar system of interconnection charges to the one Ofel is proposing, does not face the same problem. AT&T was broken up into one long-distance and several regional telephone companies, thus eliminating the possibility of cross-subsidy.

It would be too much to expect the government to force a similar divestment of BT when it is on the point of privatising a second tranche of its shares in the company. In the absence of such a restructuring, there is a real need for some independent assessment of such essential components of competition as the interconnection charges.

The assassination of Rajiv Gandhi undoubtedly confronts India with its greatest challenge since independence. The emotional shock of Mrs Gandhi's death in 1984 was more intense - a woman prime minister killed in office, who had been the country's head of government for 14 years. But the challenge now is greater than it was six years ago because India is a more fragile country.

When Mrs Gandhi was killed by Sikh extremists, the only significant threat to unity came from the separatist movement in Punjab. Not only has the conflict in the Punjab deepened since then, but India also faces threats to its unity from separatist insurgencies in two other border states - Kashmir and Assam.

In other regions such as Tamil Nadu - where Rajiv Gandhi was killed - Maharashtra, Gujarat, Andhra Pradesh, and even parts of Bihar and Uttar Pradesh, there has been a welling up of regional sentiment that reflects growing resentment against the arrogance and impotence of central government. The problem of whether the union can hold together has never before been posed so acutely.

As with regionalism, so with religion. The surge in strength of Hindu revivalism over the past year and the triumphal campaigning during this election of the Hindu Bharatiya Janata party (BJP) have undermined in unprecedented fashion India's secular tradition of a nation embracing both Hindus and Muslims.

The secular ideal - founded on the need to ensure communal harmony after Hindus and Muslims had massacred each other during the riots that accompanied partition and the birth of the Muslim state of Pakistan - is the most important legacy of the Nehru family.

But in the lifetime of Jawaharlal Nehru, India's first prime minister and Rajiv's grandfather, there were already many in the Congress party who believed that India should have declared itself a Hindu state. Only Nehru himself had the authority to hold them at bay. Both Mrs Gandhi and Rajiv, while maintaining the secular vision, yielded ground.

Rajiv Gandhi, in particular, allowed the foundation stones to be laid of the proposed Hindu temple at Ayodhya on the site that is part of a mosque. With that concession, the Hindu militant movements - the Vishwa Hindu Parishad and the Rashtriya Swayamsevak Sangh, which are closely connected with the BJP - realised that they had only to push harder for the door to open more.

The renewed Hindu-Muslim rioting in Meerut in Uttar Pradesh during polling on Monday, which left 19 dead, is a reminder of the increased polarisation between Hindus and Muslims, and a warning of the confrontation that could follow were the BJP to come to power.

In addition to these regional and religious tensions, conflict between castes has grown. The electoral campaign of former Prime Minister VP Singh, which was based on making the lower castes aware of their strength, was not as successful as he had hoped. But his proposal for increasing job reservation in government for the poor has made the lower castes more aware of the potential the electoral system gives them for displacing the upper castes from their positions of power and privilege.

All these pressures have combined to cause significant strains on India's democratic system and have contributed to the violence that marked the election campaign and the first day of polling. More than 150 people have died so far.

In a further reflection of this malfunctioning of Indian democracy, the election commission cancelled a poll in five constituencies only hours before Rajiv Gandhi's death. Such "countermanding" of an election

Rajiv Gandhi leaves behind both a fragile country and a party split more than ever by internal rivalries, reports David Housego

A nation stretched to breaking point

because of widespread violence and vote-rigging has only occurred once since independence in 1947.

The economy is only clouding the picture further. India finds itself in a worse balance of payments situation than ever before. Growing current account deficits, culminating in a record \$10bn deficit in the last financial year, have resulted in an outstanding debt of \$70bn-\$80bn. Foreign exchange reserves have run out and the sharp decline in India's creditworthiness abroad, following postponement of the February budget and the current climate of political uncertainty has closed the door to further commercial borrowing abroad. The risk of a default has risen as Indians living abroad begin to withdraw their foreign exchange deposits and US commercial banks cut back their short-term lending.

Mr Gandhi's death itself injects fresh bitterness though this will be kept somewhat out of the public eye until after his cremation tomorrow. The BJP, led by Mr L.K. Advani, is angry that the president and election commissioner decided in the early hours of yesterday morning - without consulting the political parties - to postpone the election of the last two days of polling. Voting has been postponed from today and Sunday to June 12 and June 15.

An exit poll taken in Delhi during Monday's polling showed the BJP was heading for a comfortable victory in the capital. The party obviously believes that the Delhi result reflects the pattern in the Hindi-speaking belt of the north. Mr Gandhi's death and the wave of sympathy that it could generate - have already changed the calculations for the remaining 306 seats of the 504 being contested.

But the BJP fears that the Congress could now use the period left until polling to accentuate this advantage. Above all it fears that with Mrs Sonia Gandhi, Rajiv's widow, who was yesterday officially installed as the Congress party president, it could achieve a landslide victory in the remaining seats on the basis of a sympathy vote.

The other area in which Mr Gandhi's death could inject fresh bitterness is within the Congress party itself. The party was once a mirror of India's history since independence - a "catch-all" party that embraced Hindus and Muslims, Indians from widely disparate castes and regions and which expressed the secular, modernist tradition that Nehru sought to establish.

Over the past 10 years, Congress has suffered from symptoms of decay and stagnation as the leadership lost contact with its local organisation. From a party of government, it has increasingly become a party of patronage and political spoils. Divisions have widened among its factional and regional barons. It has become much less successful in winning elections.

This was the situation Mr Gandhi would have faced in the aftermath of the poll. If his party had won fewer than 200 seats in the new parliament



Resting place: Rajiv Gandhi's body has been blanketed in flowers in New Delhi

as many observers believed possible - he could have faced challenges to his leadership which might have led to his being ousted. In the aftermath of the election, he would in any case have found it difficult to control party rivalries. His widow - born an Italian but now an Indian citizen - will be under even more pressure from powerful party bosses, who will try to manipulate her. After Rajiv Gandhi's assassination, the break-up of the Congress party remains a real possibility.

The morning after his death is very different from the aftermath of his mother's murder in 1984. If the edifice of India is to withstand the additional strains, a strong and stable govern-

ment needs to emerge. There are two ways in which this could be possible, though at the moment the prospects look bleak. The first would be a political realignment in the wake of the election that established an alliance of secular parties against the Hindu revivalist movement. This would bring together the Congress, the Janata Dal of Mr VP Singh (though probably without him) and Mr Chandra Shekhar's breakaway faction of the Janata Dal. Many in the Janata Dal are former members of the Congress party who have few policy differences with it. Such an alliance could expect support from the Communists, who are willing to back any party opposed to the BJP.

Mrs Sonia Gandhi would now be one obvious candidate for the premiership - though it is hard to see the other parties accepting her leadership. Mr Chandra Shekhar, who has proved to be a surprisingly successful prime minister, has also been negotiating to head such a coalition.

Though his party is likely to be virtually eliminated in the election, his personal stature is bound to increase in coming days while he continues to head the government and is exposed to world publicity during the cremation ceremonies. But opponents within the Congress party to his heading a new administration will want a prime minister to emerge from their own ranks.

The second possibility is that Mr Advani and the BJP are given a chance to form a government. This is what middle-class opinion in India - encouraged by the failures and opportunism of the existing parties - would increasingly like. But the BJP itself would prefer to wait until it has an absolute majority and has consolidated its position in the country.

The chances of the BJP emerging as the single largest party have, however, considerably diminished with Mr Gandhi's death and the expected swing in sympathy to the Congress party under his widow's leadership.

Whatever administration does emerge will be confronted with two immediate tests to its authority that will provide a barometer of political stability. The most immediate will be the need to prepare a budget on the basis of which negotiations for fresh borrowing can begin with the International Monetary Fund and the World Bank. The postponement of the last two days of polling means a further delay in the formation of a new government, and hence in the preparation of a budget. This is bound to further undermine bankers' confidence in India's creditworthiness.

To obtain the substantial sums that India now needs from the IMF and the Bank - about \$5bn-\$7bn - will require both substantial cuts in the budget deficit and the launching of a programme of longer-term structural reforms. The combined package - including a reduction in subsidies, moves towards privatisation and allowing companies more freedom to shed labour - will be difficult to put through politically. The Communists would feel unable to go along with it.

The other big test comes from the growing strength of the separatist movements in the Punjab, Kashmir and Assam. The army and paramilitary forces are now badly overstretched in handling these insurgencies. Mr Chandra Shekhar has opened the door to political negotiations. But these will be impossible to pursue without a government in Delhi that feels able to make concessions and to do so in the context of a review of the structure of the federation that allows greater autonomy to the states.

As India's political and economic problems have intensified over the past two years, so the country has had to take a painful look at its place in the world. The Nehru view was of an India that was an important player on the world stage, whose policy of non-alignment made it a leader of the developing group of nations.

This vision was inherited by Mr Gandhi who also sought to project India as a leading regional power with a military capability to match. Mr Gandhi's abortive attempt to mediate in the Gulf war by flying to Moscow virtually on the day of the American attack on Iraq showed how far ambitions and reality have got out of joint.

Indians are beginning to realise that the country's political and economic weakness has lost them much respect in the world. Mr Gandhi's death provides the opportunity for a new beginning. But the road will be long and hard.

Breath of strife

■ Gerald Ratner's famous experiment to discover if there's any such thing as bad publicity is now being followed up inadvertently by the UK health care division of US pharmaceuticals group Warner Lambert.

When Britain's Sun newspaper asked for samples of its Coolmint Listerine mouthwash, it promptly sent 2,000 bottles free. "We were given the impression they were to be used in consumer trials with French people because they'd been shown by a survey to have the worst smelling breath in Europe," a spokesman explains.

The proposal was attractive because, although Listerine is going down well in the UK and other European markets, Holland, Belgium, Denmark and Sweden, the French and German markets are untapped.

The paper's consumer trials, however, turned out to be in dubious taste. "Calling all four-mouthed Frenchmen" it howled from a page top yesterday. "You can now collect your free supplies of mouthwash - thanks to the Sun."

"We have teamed up with the people who make Listerine to try to stamp out the Pung Frenchmen," it added, promising a free bottle to any holder of a French passport who called at the paper's offices.

So far, the division's spokesman sees no reason to worry either about the effect on sales prospects in France, or about what the Sun might do if its first 2,000-bottle offer isn't fully taken up. "We just hope it doesn't get too offensive, that's all."

Side by side

■ Hanson's arrival at the foot of ICI's ramparts has taken the Confederation of British Industry somewhat aback. Although much exercised of late by issues such as City

short-termism, it cannot make any statement on a Hanson bid for Britain's largest industrial combine.

The reason is simple. Both companies are members, a fact demonstrated by the CBI's new annual report. On successive pages it has placed glowing quotations from executives of both companies about their work for the greater good of British business.

Chris Hampton, head of ICI's bulk chemicals business and chairman of the CBI's environment committee, extols the virtues of a responsible attitude towards the environment.

Adjunctly Martin Taylor, Hanson's deputy chairman and chairman of the confederation's companies committee, says the CBI aims to "hold fast to the basic essential of commercial freedom for business, firmly linked to integrity towards customers, responsibility towards employees and most significantly accountability towards shareholders."

Other foot

■ Certain investment managers at Postel, one of the UK's largest pension fund managers, are about to start learning how the other half lives.

While the common or garden venture capitalist has long had to stump the markets in search of funds, Postel's executives are used to having plenty of same on tap. Any wearing out of boot leather is done by finance directors and securities salesmen beating a path to their door.

But times are changing and John Brakell and Ray Maxwell, who run Postel's venture capital portfolio, will soon be pounding the streets, not least of New York. They have to drum up funds for a new venture capital operation they plan with America's Chancellor Capital Management, most



"I wonder if there's any money in putting down pit bull terriers?"

of the money being expected to come from US institutions. Maxwell's belief is that the unassuming activity will be "exciting". Whether or not he's right, it will certainly be a shot in the arm for rival venture capitalists if they catch sight of the Postel duo slumped exhausted on the "red eye" flight back from New York.

New blood

■ Meanwhile the Association of Investment Trust companies is getting a younger look. Out goes Foreign & Colonial's Michael Hart, the doyen of the industry, after a two-year stint as chairman.

In comes 39-year-old Paul Manuella, who has spent the last two years reviving the fortunes of Touche, Remnant after the late 1980s trauma caused by staff departures and predatory bids. Now he hopes to continue the revival in fortunes of the investment trust industry, where discounts have narrowed as private investors

have rediscovered the sector.

A sports enthusiast, Manuella supports Wolverhampton Wanderers whose star player is called, appropriately, Bull.

Near thing

■ ICL, profitable and ebullient, seems the very model of a modern computer company under its owner of six months, Fujitsu of Japan. The story of the impending takeover broke in July last year, shaking the world computer industry's major players brutally out of their summer reveries.

Inevitably, the revelation overshadowed the same day's news that leading UK software house Hoskyns was to be sold to Cap Gemini-Société (CGS) of France, Europe's largest and most aggressive computing services company.

Only Hoskyns' chiefs know how close things came to a clean sweep for Japan.

GEC and Siemens had inherited Hoskyns via their joint bid for Plessey, and were anxious to be shot of a company and industry they found hard to comprehend. With CGS's early interest fading through dislike of the conditions of sale, the Japanese computing company CSK was emerging as front runner.

At that point the Hoskyns management decided overalls at work and sushi for lunch were not for them. Merchant banks pulled strings to secure the deal for CGS in the nick of time.

Just as well. The thought of the UK's premier hardware company and software company both going into Japanese ownership would have proved too much for defenders of the UK's electronic sovereignty.

Mystery tour

■ An elderly man applying for renewal of car insurance has recorded having three accidents in swift succession. First his car was hit by an aircraft, next rammed by a yacht, then swamped by a giant wave.



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ECONOMIC VIEWPOINT

How to refinance the grass roots

By Samuel Brittan

This article began as an attempt to see what has recently happened to fiscal privilege in the housing market. But I soon found that the wider issue of the finance of local government remains too bizarre to be left to those who profess to understand the subject.

My starting point was nevertheless the privileged position of home ownership compared with other forms of investment. Some economists are adamant that this has contributed to property booms, and to inflation. In any case, it raises underlying land values and leads to a bias in investment in favour of domestic property.

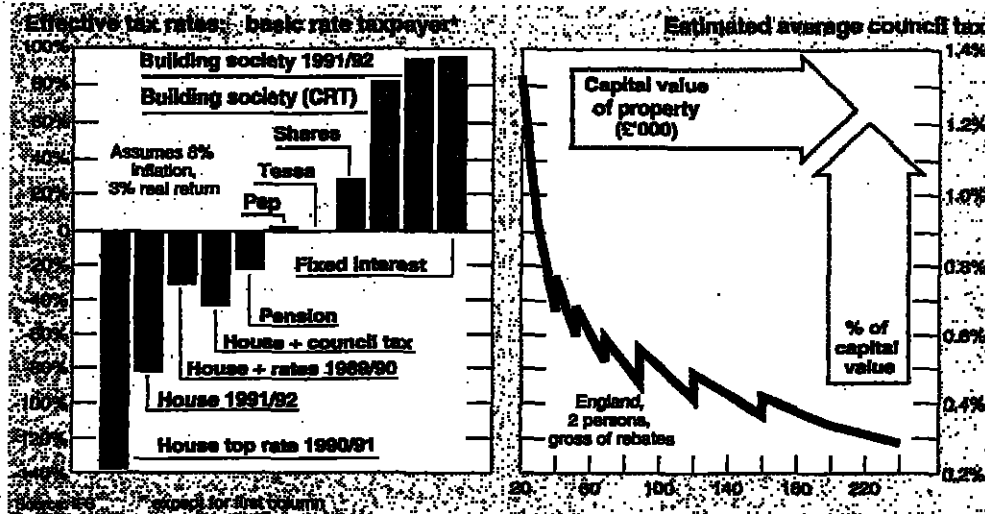
These distortions were unfortunately aggravated rather than reduced by the Thatcher government. The last vestige of a tax on the imputed income from house ownership, namely domestic rates, were abolished, and any trimming of mortgage interest relief was vetoed. The results are shown in the first chart, which is an estimate by the Institute for Fiscal Studies of the effective marginal rate of tax on the return from alternative investments on certain stylised assumptions.

In the middle are exempt savings accounts (Tesas) and personal equity plans (Pepe), on which there is no tax on the yield. Income from most financial assets is taxed quite heavily, mainly because of the lack of effective indexation for inflation. On the other hand, the effective tax rate is negative on investment in pension funds and home ownership. The most flagrant example was in 1989-91 when domestic rates were abolished and mortgage

The absurdity is that local authority taxes now cover only 12 per cent of their current spending

interest relief was available against the higher 40 per cent income tax rate. The higher rate taxpayer could then face an effective tax rate of minus 137 per cent.

As a result of the limitation of mortgage interest relief to the basic rate of 25 per cent, the typical effective tax rate on home ownership will now be only minus 82 per cent. The projected council tax may take this down to minus 45 per cent, which is still somewhat more privileged than the minus 31 per cent which prevailed when domestic rates were in force. The tax rate on the return from domestic property was minus even then,



because of the combination of mortgage interest relief and the non-taxation of capital gains on owner residences.

How far the proposed council tax is from a full property tax – and the element of bon of poll tax – is shown in the second chart. The average yield of the council tax, if it were in force this year, might be about 0.575 per cent of capital values. But because of the banding system it will range regressively from well over 1 per cent on the cheapest properties to under 0.3 per cent on the most expensive ones.

It would be possible to make the council tax less regressive, and like more on voters with relatively expensive property in the south-east, by increasing and extending the number of bands. If a Labour government did this it would be able to claim that it was in fact going back to a modernised system of rates, without having to touch local authority finance by its roots again.

Even the old domestic rates were regressive in relation to income, however, especially at the lower end of the scale. Hence the need for a radical re-engineering. The Institute for Fiscal Studies, in a recent publication, Local Taxation (7, Ridgmount St, London, WC1, 7AE 1AE, price

£10), has concluded that for this and many other reasons a property tax should be supplemented by a local income tax.

The Thatcher government's changes to local authority finance had three aspects. First, there was the move to a fixed grant to each local authority based on a supposedly objective determination of needs. Second, there was the move to a centrally fixed business rate of the proceeds of which are distributed to local authorities according to population. The business rate was further tied down in that it could not be raised by more than the rate of inflation. Third, there was the substitution of the poll tax for domestic rates.

The changes proposed by Mr John Major only affect the poll tax. The other elements remain in place. The increase in the business rate of the proceeds of which are distributed to local authorities, following the rise in VAT from 5 to 17½ per cent in the Budget, has increased the gearing of local authority spending even further to a factor of about seven to one. This means that for every 1 per cent by which an authority's spending exceeds the amount Whitehall deems appropriate, the

local tax – whether the poll tax or council tax variant – will increase by 7 per cent.

Mrs Thatcher hoped that the high local tax cost of extra spending would be a powerful deterrent to excessive expenditure. But initially, at least, local authorities simply pushed up the local tax bill, and put the blame on central government, which was then bullied into panic rebates and grants.

The absurdity arises because local authority taxes are now expected to cover only 12 per cent of their current spending: a recipe for irresponsibility and passing the buck.

There is indeed a case for going the whole hog and abolishing all local taxes except for some minor imposts to pay for a few optional frills. But in that case central government should be seen to call the tune and local authorities should become just service agencies. There could still be local elections. Their purpose would just be to secure some on-the-spot influence on the details of administration. But this defeatist solution would increase our over-centralisation.

The natural reform is to pick out those decisions which are best made at local level and see that local electors face the full consequences of what their

representatives decide, no more no less. That would only be possible if the typical local authority raised its own finance. Indeed, the ideal system might be the Oxford and Cambridge one, where the richer colleges pay a levy to help the poorer ones. As a more practical second best, central government support should be confined either to poorer councils or to those with unusually heavy needs.

This would only be possible if there were either a massive increase in local authority revenues or a massive reduction in the services for which they are responsible. Even if education were removed – which is the most widely canvassed reform – there would still be no chance of the proposed council tax being sufficient to cover expenditure. The old UK rates (both domestic and business), already which amounted in their prime to nearly 4 per cent of Gross Domestic Product, compared to an average yield of 1.2 per cent for property taxes in Organisation for Economic Co-operation and Development countries. Thus if we mean business about local responsibility – even for a much reduced range of services – there is no alternative to another form of local tax, of which a local income tax is the only real runner.

The idea is normally rejected with horror by Conservative governments and passed quietly over by Labour ones, because of the high headline tax rates to which the combination of a national and local income tax would give rise. According to an estimate by David King of the University of Stirling, a local income tax of

There is no real alternative to a local income tax, if we want to restore local responsibility

14p in the pound might be required for a fully localist approach. (Local Government Taxation, IEA, 2 Lord North St, London, SW1P 3LB).

But, as Mr King himself points out, if the purpose of a local income tax is to replace central government grant, rather than rates or the poll tax, then the arithmetic becomes very different. For the imposition of a local income tax then allows the national income tax to go down pound for pound. There need then be no change in the typical income tax bill.

Local responsibility requires adequate local revenue in place of mere tokenism.

BOOK REVIEW

Hot boardroom topic goes to their heads

POWER AND RESPONSIBILITY
By Robert Monks and Nell Minow
Harper Business, New York, \$22.95

292 pages

sists of investors who try to make companies more accountable to shareholders. Over the past few years it has chalked up some big successes, either in quiet discussions with company chairmen or through proxy, or shareholder voting battles.

Robert Monks and Nell Minow are veterans of the movement and among its most articulate advocates. Mr Monks, who once headed the US Labor Department's pension programme, founded Institutional Shareholder Services, a firm that advises pension funds on how to vote their proxies. Ms Minow succeeded him last year as head of ISS. Their book is as much as one is likely to get to a bible for the movement, and it has all the strengths and weaknesses of a preacher's tract – powerfully argued, but one-sided, and inclined to an over-optimistic view of the hereafter.

Monks and Minow offer a good, simple account of the familiar corporate excesses of the 1980s – be it poison pills, greenmail, and the abuses of employee stock ownership plans. Their questions about the composition of company boards – too often full of "yes men" – are useful, if a little sketchy, and the same applies to their strictures on excessive executive compensation. The average US board member, they say, now receives 157 times the pay of the manufacturing worker, compared to 24 times in the mid-1970s.

But they overstate corporate America's freedom from accountability, and their assertion that better governance will necessarily lead to more caring companies, anxious to align their policies with those of the community, is also doubtful. The prime concern of shareholders is profits, not social or environmental issues.

Still, their broad diagnosis of the need for more corporate

governance is sound. How to achieve it? Monks and Minow urge changes in company voting rules and would like (while recognising this as unlikely) a federal corporate law covering governance issues.

But they pin their main hopes on US institutional investors, the large fund managers which have grown rapidly over the past two decades and now own some 45 per cent of US stocks. It is in their interests to improve the management of the companies in which they invest, since this should boost the value of their portfolios.

Some, in particular the large public pension funds, which handle the retirement benefits of state employees, are already at the forefront of the corporate governance movement. The problem is that many other categories of institution are not nearly so enthusiastic. The running of corporate pension funds – so-called ERISA schemes – is usually farmed out to fund managers who see no advantage in rocking the shareholder rights boat. And insurance companies, which also control large pools of investment funds, could be held back by commercial relations with the companies.

Monks and Minow argue that a powerful boost would be given to the movement if companies took responsibility for ensuring that their pension fund shares were voted. Indeed, they point out that Washington has recently given a strong series of nudges in this direction, with statements declaring that ERISA fiduciaries who vote blindly, or do not vote or corporate issues, appear to be violating their duty to plan participants.

But while this is fine in theory, companies are unlikely to embrace the idea with enthusiasm, for it will advance the very forces that threaten to curb their freedom of action.

So while the corporate governance movement will certainly gather pace over the next few years, and corporate leaders will ignore it at their peril, it is questionable whether it will have quite the force Monks and Minow would like.

Martin Dickson

LETTERS

In support of a minimum wage

From Mr Simon Crine

Sir, Your report "Minimum wage targets critics" (May 20) on our local publication, Making a Minimum Wage Work, lacked your usual sense of balance and eye for detail. The author, Fred Bayliss, is a strong supporter of the concept of a national legal minimum wage. As the title indicates, Mr Bayliss's interest was in how a minimum wage might be implemented and not in whether there should be one.

The pamphlet does not go in for alarmist predictions of job losses and wage increases on the initial target figure Labour has proposed of a half of median male hourly earnings. It simply calls for a minimum wage to be introduced at a modest level and to be raised by rather more than inflation to achieve real gains for the low-paid. In the words of the joint Labour party and TUC statement of 1986: "The important point is not the initial figure, it is to get the legislation on the statute book and progressively to update it."

Simon Crine, Fabian Society, 11 Dartmouth Street, SW1

An education system that would unite knowledge and skill

From Mr David Miliband

Sir, Andrew Adonis associates himself ("Bottom of the class", May 21) with the view that Labour and Liberal support for an end to A-level elitism, and the creation of a unified system of education and training for 16- to 19-year-olds, "has more to do with crude social engineering than with life-chances and national efficiency". But, fundamental reform – preferably sophisticated educational engineering – is needed precisely to advance social and economic aims.

Our uniquely specialised academic track is not just bad for those who do A levels. It is disastrous for those who do not. Above all the division between education and training establishes the judgment of failure, not the promotion of achievement, as the leitmotif of the system. Vocational education becomes a refuge for those who fail to make the academic grade. The division from general education makes vocational courses narrow and prematurely job-specific in

content. The differences in structure, style and assessment make transfer between the two tracks difficult, and "equivalence" unobtainable.

A unified system, on the other hand, can supplement the strengths of each track with a varying balance of academic and vocational study to suit different aptitudes and interests. By uniting – instead of polarising – knowledge and skill a unified system is the basis for creativity in a modern

Questioning the Chernobyl study

From Simon Roberts

Sir, Your report of the International Atomic Energy Agency's study into the impacts of the Chernobyl nuclear accident on human health ("Chernobyl sickness fears reduced", May 21) failed to examine its very shaky research foundations.

Even a brief analysis of the study indicates that the IAEA's claim that there are "no health disorders that could be attributed directly to radiation exposure" is verging on the scientifically incompetent.

Scientists undertaking the study failed to investigate the health of the 60,000 "liquidators" of the accident – the soldiers and miners involved in "clean-up" and containment operations who would have received the highest radiation doses. They also failed to assess the health of the 100,000-plus evacuees from the Chernobyl area who may have

economy. The Royal Society structure, style and assessment make transfer between the two tracks difficult, and "equivalence" unobtainable.

Both equity and efficiency now depend on the higher participation and higher achievement such a system would promote.

David Miliband, research fellow, Institute for Public Policy Research, 30-32 Southampton Street, WC2

Chernobyl study

received high doses before they were evacuated.

Moreover, the IAEA scientists failed to acknowledge that any increase in radiation-linked health problems – leukaemia, thyroid tumours and other cancers – would not necessarily show up yet. For example, leukaemia cases could be expected to peak some ten years after the accident. No marked increase now is no reassurance for the future.

The IAEA could be justifiably accused of drawing a veil of inept science over the consequences of the world's worst nuclear accident. It has done the sifting reputation of nuclear power and the people of Chernobyl no favours with its unscientific assertion that radiation is free of blame. Simon Roberts, National Energy Campaigner, Friends of the Earth, 26-28 Underwood Street, London N1 7JQ

The high cost of US health care

From Mr Peter Tray

It seems surprising that Michael Prowse failed to mention ("Be grateful for the NHS", May 20) what is surely a principal cause of the astronomical costs of health care in the US – the litigious nature of US society.

This results, inter alia, in

professional negligence insurance premiums several times higher than most European doctors' salaries; and pressure on the medical profession to order every conceivable test in order to avoid a lawsuit.

Peter Tray, Richard Arkell & Co, 689 High Road N22 6DA

Quality, not quantity, is becoming the yardstick for UK consumers

From Mr R Tyrrell

Sir, In their article, "Uphill fight in the high street" (May 14), Alice Rawsthorn and John Thornhill put a considerable emphasis on the consumer's demand for quality. We run a programme on behalf of more than 80 consumer goods and services clients that has found evidence of behaviour during the recession that strongly supports the quality thesis.

Casual and traditional thinking is that the consumer response to hard times is to "trade down". If we define trading down more precisely as buying the same range of goods but going for cheaper

and inferior quality products our research suggests this is now frequently not the consumer's response.

When little discretion exists in each purchase category (you are buying the food because you have to eat or the car because the old one has broken down) then, when hard times happen, your only option is to trade down.

If, however, a significant proportion of each and every category of purchase is discretionary (you don't really need the kiwi fruit and you just fancied a new car) you have available an alternative strategy: you reduce your purchase fre-

quency but not your fundamental quality expectations.

Our evidence is that for most product sectors the most popular strategy has been to reduce purchase frequency but to maintain quality standards. For example, in the 12 months February 1990-91, of those cutting their expenditure on cars only 10 per cent "bought a cheaper new car than they would have liked". In the case of alcohol, of those cutting back, three-quarters have reduced frequency compared to only a quarter trading down. Most other sectors showed similar patterns, though food was split 50-50 between trading

down and buying less frequently.

These data suggest that we are well into the "I fancy it" rather than "I need it" consumer society. Quality, variety and sometimes surprisingly defined, will become a progressively more important basis of competition in consumer markets.

R Tyrrell, Henley Centre, 2-4 Tudor Street, EC4

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A FINANCIAL TIMES SERIES: Part 7

EUROPEAN FINANCE
AND INVESTMENT

SPAIN



The banks have been accused of failing to pass on to customers the benefit of official policy, writes **Peter Bruce**. But mergers this month promise a new spirit of competition.

Meanwhile, Madrid still faces a monetary problem which, if unresolved, may mean realignment of the peseta in the ERM.

Cutting a new cloth

PREDICTING anything about Spain is a dangerous pastime. By the beginning of this year, the country's banking sector looked set to tumble into the European Community's single market just about intact.

The merger fever of 1988 and 1989 was over. Much to the government's irritation, banks appeared to have decided that they were best off alone, reaping steady and sometimes extravagant profits from their traditional retail businesses, instead of coming together to form big institutions to compete in Europe.

In the space of two weeks this month, that scenario was turned on its head in spectacular fashion. First, at the beginning of May, the government took the initiative by announcing that it planned to merge all its financial institutions into a new body, the Corporación Bancaria de España (CBE), which, with assets of Ptas8,300bn (\$78.5bn), would become the biggest in the country.

Then, out of nowhere, it seemed, Banco Central and Banco Hispano Americano, two large private-sector commercial banks, announced that they were going to merge, making them the biggest Spanish bank, with assets of more than Ptas8,300bn. The finance ministry was ecstatic, and Spanish banking had fundamentally changed, with younger men rising to the top of the most powerful institutions in the land.

A new corporate cloth is being cut in Spain to fit the aspirations of its socialist rul-

ers. Big banks, blessed with government forgiveness on the capital gains arising from asset revaluation when they merge, are much easier to control than the tiny fiefdoms run by stern, and usually conservative, patriarchs.

Two things had bothered the government. Enthusiastic about a united Europe, it has badly wanted to create Spanish institutions big enough to make their presence felt beyond Spain's borders. Mr Francisco Luzon, the 43-year-old president of Banco Exterior, the state-owned bank that will probably lead the new CBE, has begun to warn that, unless Spanish banks become big enough, they will not be able to wean themselves off their dependence on retail banking, and may be unable to bank for those few Spanish companies powerful enough to do business and invest abroad.

But Madrid also has a chronic monetary problem with its neighbours. Since entering the exchange rate mechanism of the European Monetary System two years

ago, the peseta has stuck fiercely to the top of the 6 per cent band, within which it is allowed to fluctuate against most other ERM currencies. In the last few months, the Spanish have been forced into a particularly uncomfortable position against the French franc, which has been trading at the bottom of its band against the peseta.

The Bank of Spain has cut its official intervention rate twice this year, from 14.5 per cent to 12.75 per cent, but pressure on the peseta did not ease the first time, in March, and may not do so following the second cut, earlier this month. The removal in April of Spain's last capital controls, to encourage an outflow of funds, has not worked yet either.

Spain's high real interest rates have made it extremely attractive to foreign investors, but the government worries that any large cut in interest rates would rekindle demand and send inflation rising again. The problem now is to find a non-inflationary way to bring interest rates down.

The solution seems to lie in the way the cutting is done, and the banks are the problem. Two of them, Banco Popular and Banco Santander, rank among the five most profitable in the world. The country is straddled with more than 16,000 bank branches, not to mention savings banks, which still rely almost entirely on traditionally

wide retail margins to make their money. In times of consumer recession, Spanish banks make profits by disposing of industrial or financial assets.

Foreign banks have made very little impact on the way Spanish banks make their money. In fact, they have tended to join the fray, which is not surprising because it is very lucrative. Retail margins in Spanish banking are higher than in any other member of the EMS.

This cosy lifestyle appeared to have met its end in mid-1989, when Banco Santander suddenly launched a high-interest-bearing current account. Most of the others, desperate not to lose customers, followed suit. Total net profits in the sector fell from 1.54 per cent of total assets to just over 1.5 per cent, after having risen from 1.4 per cent in 1986. Not surprisingly, the big commercial banks are now on the retreat, cutting back on interest offered to savers. But they have managed so far to avoid cutting their lending rates. The finance minister, Mr Carlos Solchaga, has accused them of deliberately not passing the benefits of official policy on to consumers.

Mr Solchaga turned to his old friend and former banking colleague, Mr Luzon, whom he had hired in 1988 to run and turn around Banco Exterior.

For 14 months, Mr Luzon's team at Exterior worked on plans to construct a large public-sector bank, and earlier this month Mr Solchaga announced that Exterior, the Caja Postal (the post office savings bank), the Banco de Crédito Industrial and the Instituto de Crédito Oficial (which groups the country's biggest municipal, agricultural and mortgage lenders) would pool their resources - a merger in all but name - to become the biggest banking empire in Spain.

The new bank, the CBE,

would be, initially at least, a tool of government policy, and throw itself into competition with the private banks, to try and force commercial rates down. The sudden appearance of a merged Banco Central and Hispano Americano seemed to complement the effort, and the authorities are now looking forward to a renewed spirit of competition among the banks, more confident following their merger than before about living with narrower lending margins.

It may well turn out to be true that bigger banks are better able to deal with lower retail lending rates, but the CBE is probably going to have to press its competitors hard. Central and Hispano, merged, are vastly overstaffed and over-branched, and face a painful period of rationalisation before Banco Central Hispanoamericano begins to flex the kind of competitive muscle the government hopes it will achieve.

In the absence of a quick solution to the interest-rate dilemma, through the creation of bigger banks, some senior Spanish economists are also beginning to bet on a second, "fast track" possibility. Spain, they say, may have to realign the peseta upwards in the ERM.

With the currency overvalued and domestic consumer thirst apparently unquenched, following the lifting of credit restrictions, rapidly growing domestic money supply and credit make it impossible to be a helpful EMS member by cutting rates.

Silence from the business sector, the argument goes, probably means that it has nothing to complain about at the moment, and could absorb a stronger peseta. A stronger peseta would cheapen imports and lower inflation. Finally, higher ERM parities for the peseta would make it easier for the currency to move into a narrower fluctuation band.

Industry would, without doubt, complain about a stronger peseta, but if a realignment were really able to help cut domestic interest rates, the rage would be muted. Perhaps the government, now that its grand design for the banking sector is up and running, might feel bold enough to take the fast track as well.



The Barcelona stock exchange, like the other regional exchanges, is seeking a new role: page 5

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Pesetas 10,000,000,000
10 Year Notes

Lead Manager
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May 1991

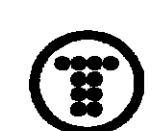


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5 Year Loan Convertible
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Pesetas 50,000,000,000
8 Year Loan Convertible
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Manufacturers Hanover

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HIDROELECTRICA
ESPAÑOLA, S.A.

US \$ 75,000,000
Private Placement

Manager
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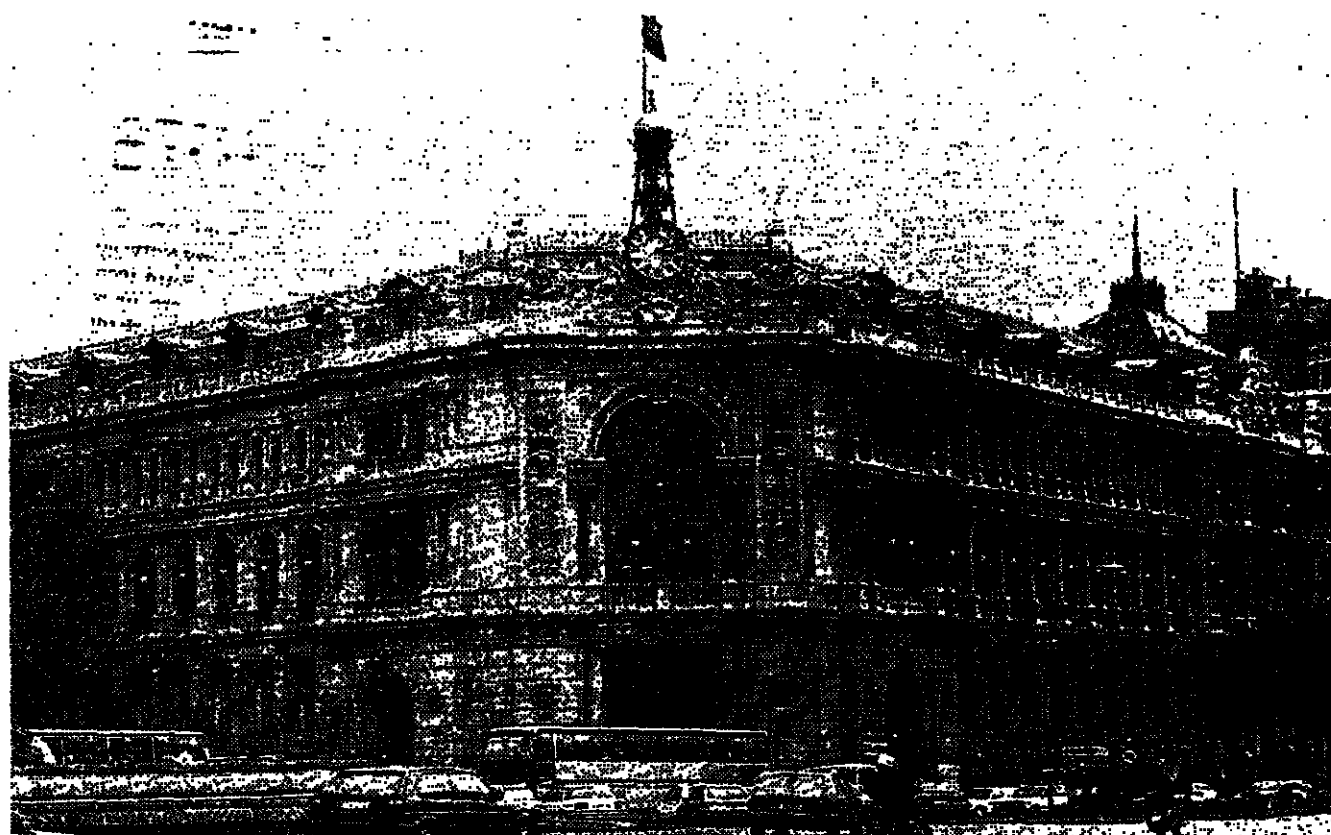
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Lead Manager and Agent

MANUFACTURERS
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Spain

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The Bank of Spain has cut its official intervention rate twice this year, from 14.5 per cent to 12.75 per cent

Richard Lapper examines the health of the banking sector

Branches may be pruned

TIMES ARE getting tougher for Spanish banks. As the country prepares for the single European market in financial services, margins on core lending activities are being eroded, and rising debt levels are also hitting profitability.

Banks are being forced to look at ways of making their extremely dense branch networks more efficient. According to Mr Joaquín Tamames, an analyst with the AXEL Group, "the market will get tougher and this will affect banks in both the raising of capital and deposits".

In 1990, though, total net profits, as a percentage of total assets, fell from 1.54 per cent to 1.52 per cent, having increased from 1.4 per cent in 1988, according to figures produced by the Asociación Bancaria.

Spanish banks have traditionally been very profitable, because they have been able to secure cheap deposit bases and lend at relatively expensive

Bank overcrowding

	Inhabitants per branch
Luxembourg	1,280
Spain	2,338
Denmark	2,845
Belgium	2,747
Netherlands	3,712
UK	3,929
Ireland	5,050
Greece	5,377
France	5,690
Italy	5,832
Portugal	5,837
Germany	9,382

Source: BEC

rates. This lending margin was equal to 4.4 per cent of total bank assets in 1989 - the highest rate in the EC outside Portugal and Greece.

Earlier this year, a survey listed two Spanish banks which specialise in retail business, Banco Popular and Banco San-

tañder, among the five most

profitable banks in the world.

Last year, however, profit-

ability was adversely affected

by competition, especially over

interest-bearing current

accounts. Although Barclays

Bank's Spanish subsidiary

started the ball rolling in 1986,

the war of superaccounts, or

guerra de supercuentas, really

started in earnest in September

1989, when Banco Santander

increased the rates on its stan-

dard current account. San-

tañder launched a nationwide

advertising campaign - mod-

elled on Barclays own approach

- to drive the fact home.

Several of Santander's lead-

ing competitors eventually

followed suit, but the gradual

decline in Spanish interest

rates over the past year has

reduced the room for manoeuvre

available to banks. Analysts

believe that the war is over.

The results have been quick

in coming. The decision by

Banco Central and Banco His-

pano Americano to merge ear-

lier this month is, in part at

least, a response to their belief

that they need to be bigger in

order to be able to spread their

business beyond their tradi-

tional retail boundaries. That

realisation was also hammered

home by a decision by a Gov-

ernment increasingly frustrated

with the way the private banks

seemed to be barricading them-

selves in their own fiefdoms,

to merge all the public banks into

the biggest bank in the country,

led by Banco Exterior, which,

the authorities said, would "act

as a bulwark in the market".

Nevertheless, Mr Tamames,

believes Santander has emerged

as the clear winner, increasing

its market share among the

so-called big seven Spanish

banks by 1.7 per cent between

December 1989 and September

1990. Santander's private sector

deposits rose by 21 per cent

over this period.

At the beginning of April,

Santander announced a cut in

its mortgage lending rates,

indicating to some observers

that the competition may

switch to that front.

However, that seems

unlikely. Bank lending for

personal loans has increased in

the past two to three years, but

loans to individuals still

account for less than 30 per

cent of outstanding bank

assets. In addition, the mort-

gage market is still heavily

dominated by savings banks

such as the Caja de Madrid and

the Caixa and the state-run

Instituto Hipotecario Oficial.

Unlike some banks, Banesto

did take part in the deposits

war by marginally increasing its

market share, but its president,

Mr Mario Comde, says: "A credit

war would be completely mad.

Banks biggest problems are

always bad debts."

Although Spain should avoid

a recession, the government

expects economic growth of 4

per cent this year, the number

of bad debts is rising.

Instead, competition is likely

to focus on other areas. Banks

will attempt to increase the

sales of non-financial products,

such as life insurance. Already,

alliances between banks and

insurers have been mushroom-

ing, with banks receiving com-

missions for policies sold

through their branches.

Santander has developed

relationships with the US com-

pany Metropolitan Life, with

which it has formed a joint ven-

ture. Mr Matías Rodríguez

Incarte, executive vice-presi-

dent of Santander, says: "We

think it is a field well worth

pursuing in the future. By any

international standards, insur-

ance is underdeveloped in

Spain."

THE ECONOMY		
	1989	1990
Total GDP (\$bn)	379.0	491.4
Real GDP growth (%)	5.2	3.6
GDP per capita (\$)	9,689	12,472
Consumer prices (% change pa)	8.8	6.7
Unemployment (% of lab force)	16.9	16.0
Industrial Prod. (% change pa)	5.2	-0.6
Tourism receipts (\$bn)	18.1	18.8
as % of GDP	4.2	3.8
Reserves minus gold (\$bn, year end)	41.5	51.2
M1 growth (% pa, period avg)	16.1	22.7
Bank of Spain rate (% pa, year end)	14.5	14.7
Govt bond yield (% pa, period avg)	13.7	14.7
Madrid SE index (% change over year)	+8.1	-24.8
Average exchange rates		
Plata	118.4	101.9
Plata	193.7	181.0
Plata/Dm	62.9	63.0
Current account balance (\$bn)	-11.6	-15.7
Exports (\$bn)	44.4	55.4
Imports (\$bn)	71.4	87.5
Trade balance (\$bn)	-27.0	-32.1
Main trading partners (1990, % by value):		
	Exports	Imports
France	20.8	14.7
West Germany	13.6	16.5
Italy	10.7	10.1
UK	9.0	7.2
USA	5.8	8.3
EC	69.4	65.2

*See 12.75 per cent

Source: BEC, Subcomisión, Banco de España



Carlos Solchaga, the Spanish finance minister

Ferry Kirk



Banco Santander really started the superaccounts war, when it increased its current account rate in 1989

Spain's top financial institutions (Pta bn)				
	Assets	Equity capital	Deposits	No. of branches
1 Central Hispanoamericano	8,800	490	5,769	4,612
2 Corporación Bancaria de España	8,300	405	3,345	1,303
3 Banco Bilbao Vizcaya	7,700	530	5,372	2,785
4 La Caixa	5,200	286	3,612	2,296
5 Banco Santander	3,100	408	3,482	1,365
6 Banesto	3,600	375	2,792	2,081
7 Caja Madrid	2,500	185	1,838	937
8 Banco Popular	1,400	160	1,829	1,057

Merging merger between Banco Central and Banco Hispano Americano is completed. *As at 31.12.90. **Savings bank. Source: FT estimates

Before 1989, acquisition of First Fidelity

missions for policies sold

through their branches.

Santander has developed

relationships with the US com-

pany Metropolitan Life, with

which it has formed a joint ven-

ture. Mr Matías Rodríguez

Incarte, executive vice-presi-

dent of Santander, says: "We

think it is a field well worth

pursuing in the future. By any

international standards, insur-

ance is underdeveloped in

Spain."

He believes that it is rela-

tively easy for bank staff to sell

life products that have a finan-

cial component, such as many

savings oriented contracts.

Banks are also likely to seek

to reduce their overheads. Fig-

ures produced by the Asocia-

ción Bancaria show Spain to be

the most heavily banked coun-

try in the European Commu-

nity. Average expenses are

higher than in every European

country apart from Ireland and

the UK (both of which com-

pensate by lending more profitably

and by selling other non-fin-

ancial services) and Portugal.

Traditionally, Spaniards have

tended to bank with those

branches closest to their

homes, and convenience has

been an important element in

influencing which institution

customers choose to bank with.

Spain has more banks per

inhabitant than any country,

apart from Luxembourg, and on

average its 16,823 branches

make loans of only Ecu4,483,000

- less than half the amounts

loaned by Italian banks, and

considerably lower than any

other country except Greece.

Banks such as Mr Rodri-

guez believe this pattern will

change as Spain becomes a

more urbanised society, and

customers begin to make more

use of mechanised cash points.

Mr Tamames says that many

more banks will rationalise

their operations: "Smaller but

better qualified staff, backed

up by data-processing systems

and less centralised decision-

making, are necessary."

Santander has around 1,000

branches, compared with the

2,000 to 3,000 branches operated

by BBV, Banesto and Banco

Central, so is under less pres-

sure to cut its network.

In the short term, banks will

seek to sell off subsidiary net-

works. Last year, for example,

Banco Santander sold its

Banco Comercial Español

brand to Crédit Lyonnais.

This year, Banco Santander

sold another of its subsidiaries,

Banco Jover de Cataluña, to

Crédit Lyonnais. Banesto is to

sell its Catalan unit, Banc

Catala de Credit to Istituto

Bancario San Paolo di Torino

of Italy.

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AND INVESTMENT

SPAIN 3

Profile: Alfonso Escamez

An ace from his sleeve before the final curtain

THE CAREER of Alfonso Escamez spans 60 years of Spanish banking. It is suitable that he should finally bow out as the grand old man of domestic finance in less than a year's time, on the eve of the 1993 Single Market, to allow a new generation to face a new economic environment.

As the curtain falls on Mr Escamez, the applause sounds rapturous. He plucked one final ace from his sleeve, and with his last flourish had his Banco Central absorb Banco Hispano Americano. He thus leaves the stage as the number one domestic banker, the chairman of Banco Central Hispanoamericano, the biggest private financial institution in Spain.

It matters little that he will be succeeded as chairman of the merged bank by Hispano's Jose Maria Almunategui, that it will be Almunategui, 20 years his junior, who will be dealing with the mechanics of the fusion, and that it will be Hispano people who, in all probability, will be calling the shots for the rest of the 1990s. Mr

next 20 years you are thinking about the next two."

It would be churlish to deny Mr Escamez the immediate, necessarily fleeting, moment of glory, but the longer effects of his time at the top do give ground for some questions. Right at the end of his career, he took the plunge with the absorption of Hispano Americano leaving it for others to see the process through. In the recent past, however, Mr Escamez had kept well clear of the major developments of Spanish banking, and Central appeared to be standing still while other institutions were moving fast.

Was Mr Escamez's strategy a sign of creeping paralysis, or was it yet another example of his legendary prudence? Analysts have asked themselves. Is the absorption itself no more than a late defensive move, a response to developments that appeared to be overtaking the bank?

Central did not, for example, pitch into the debilitating high-street bank battle for deposits that was prompted by Banco de Santander's introduction of super accounts. From the outset, Mr Escamez considered that the new product would have a "frankly negative" effect on operating costs. Months later he believed his judgment had been vindicated when fellow bank chairmen began to confide to him that a ceasefire had to be called "before the [super accounts] affect even more dangerously the waterline of the banking system."

Mr Escamez was especially concerned about the transformation costs of the domestic banks, which he says constitutes the system's "greatest weakness from the general point of view". When Central released its consolidated results for 1990, it claimed that the decision to stay on the sidelines during the deposit-rate war had enabled it to lift its financial margin by 11 per cent to 15.6 per cent.

Critics, however, suggested that Mr Escamez's prudence might have caused Central to lose market quota by lowering its image before a public that was fascinated by the so-called super accounts. From the outset, Mr Escamez refused to follow the path forged by Banesto's Mr Mario Conde, who revalued his bank's industrial assets and brought them all under the same corporate roof. He instinctively distrusted such

...Now there's plastic sheeting everywhere and cultivation below'

revaluations, for he believes that the "historic price" of share titles is an inbuilt protection against market upheavals.

Mr Escamez's caution again appeared justified, at least in part. The Gulf crisis knocked down share prices, and Mr Conde fretted for weeks about the possibility that Banesto might have to provide for the low market value of its industrial assets. Post-Gulf crisis recovery, however, indicated that Mr Conde's bold strategy had merits that a bank such as Central, with industrial assets greater than those of Banesto and said to represent 3 per cent of Spain's GDP, should note with care.

Undoubtedly the reorganisation of industrial assets will head the agenda of the new Central Hispanoamericano team. Mr Escamez's highly personalised grip on the Central empire - he himself presided over the energy group Cepea and over the insurer Vitalicio - is now loosened. His successors have a tall order in following his extraordinarily long act.

Tom Burns

Richard Lapper explains why banks and insurers have been developing closer ties

Agents' commissions add to high costs

IN EUROPE, the terms *bancaassurance* and *Allfinanz* have become synonymous with the growing trend towards the integration of many banking and insurance activities, reflecting the prominence that leaders of the French and German financial services industries have given to the idea.

But *bancaassurance* is also advanced in the less well developed Spanish market, where almost all leading banks are either actively selling a range of life, motor and house insurance across their counters, or examining the possibility of doing so.

Banks have been finding that the margins on their core lending business, traditionally among the highest in Europe, have declined following the introduction of interest-bearing current accounts. At the same time, partly because their branch networks are more dense than in any other European country, Spanish banks carry high overheads, and have been forced to look beyond deposit-taking and lending activities in order to increase productivity.

According to Mr Mario Conde, president of Spain's second biggest bank, Banco Espanol de Credito (Banesto), "to widen our margins it is necessary to increase the num-

ber of non-financial products that we sell". Insurers are also under competitive pressure, with a growing number of more efficient European companies entering the Spanish market. Like their counterparts in France, Germany and Italy, Spain's insurers have traditionally distributed their products via networks of semi-independent agents. The hefty commissions on sales which these agents earn - sometimes amounting to 25 per cent of premiums - are one of the main reasons why Spanish insurers carry such heavy expenses.

Problems are particularly acute for companies such as the Banesto subsidiary, La Union y El Fenix, which have long-established agency networks. According to Mr Angus Runciman, analyst with BNP Securities in London: "The general agents sell exclusively Fenix products, but operate under their own title and jealously guard their territorial exclusivity. Since commissions are calculated simply as a percentage of premiums, the agents have done very well at Fenix's expense." For simpler personal lines and life products, bank distribution is cheaper.

As a result of this convergence of interests, banks and

insurers have been developing much closer ties. This has been easiest for those banks that already own insurers, such as Banesto (La Union y El Fenix), Banco Central (Group Vitalicio) and Banco Hispano Americano (La Estrella), and Banco Bilbao Vizcaya (Aurora Polar and Euroseguros).

Mergers between Spanish banks have brought short-term complications with them. BBV set up its own insurance subsidiary, Euroseguros, three years ago, to sell life insurance products. It proved to be a highly successful vendor of a short-term life insurance policy called *primas unicas* before the product was scrapped last year. Last month, BBV began to sell a new range of Euroseguros life and simple home-contents insurance poli-

tomers and employees. BBV set up its own insurance subsidiary, Euroseguros, three years ago, to sell life insurance products. It proved to be a highly successful vendor of a short-term life insurance policy called *primas unicas* before the product was scrapped last year. Last month, BBV began to sell a new range of Euroseguros life and simple home-contents insurance poli-

work. Banco Popular has a similar agreement with the German insurer, Allianz. Plus Ultra, the insurance subsidiary of the UK company, Norwich Union, has developed one of the most sophisticated bank-insurance relationships. Banca Catalana, a Barcelona-based bank owned by BBV, sells Plus Ultra life insurance savings products directly to its own customers from a window in each branch office.

At the same time the two companies have created a joint-venture insurance broker, called Multirisc, to sell all personal-lines insurance which contain an element of risk - home contents, home structure, liability, motor, travel assistance and others.

Multirisc products are sold via the same insurance window of Banca Catalana branches, but claims are handled directly by Plus Ultra's own offices. Each Banca Catalana branch office is linked to Plus Ultra's Madrid headquarters via a computer system, which allows bank staff to provide quotes, agree limits and coverage for a range of products almost instantaneously. Premium payments are processed directly from the customer's bank account.

"Not a single paper is moved," says Plus Ultra president Gerardo Arostegui, who claims that the software, developed by Plus Ultra technicians before its purchase by Norwich Union, is the most advanced in Europe.

Since Banca Catalana's operations are limited to Catalonia, Plus Ultra is now negotiating with a number of Spanish and European banks about establishing similar alliances elsewhere in Spain.

Barclays Bank, the most successful foreign bank in Spain, has been examining the possibility of selling life insurance over the network of 250 branches that it has established in Spain since the mid-1980s.

"We wanted to complete the array of financial products," says the head of Barclays Spanish operation, Mr Carlos Martinez Campos, "but in the end we decided to establish our own operation. It was difficult to reassure ourselves otherwise that we would have had full ownership of our client list."

Mr Martinez Campos says that non-financial products such as life assurance are becoming so important that the bank will eventually have to change its image, presenting itself as a financial-services company rather than just a bank.

'I was brought up in area that was arid, rocky and treeless...'

Escamez, right now, has the secretary all to himself. The exit, right at the top, crowns a career that started right at the bottom. Mr Escamez, who was 75 at the beginning of this year, began working at the age of 12 as a messenger in a bank branch of his home village of Aguilas, in the province of Murcia, South East Spain.

"I was brought up in area that was arid, rocky and treeless," Mr Escamez says. "Now there is plastic sheeting everywhere and intensive cultivation beneath the plastic."

His home region's upward path towards prosperity mirrors a personal story that, by dint of hard work, an obsession with detail, a highly retentive memory and a host of other assets, including something of an autocratic nature, earned him the Central chairmanship in 1973.

Self-educated, he now holds honorary degrees from Spanish universities, is a singular patron to Madrid's main campus, and is a considerable cultural driving force aiding museums and orchestras around the country. As the man of the people he professes to be, he likes talking about human nature, about the skills that lie behind a personalised service and about the need for sympathetic bank branches that serve local communities such as the one where he grew up. These are not the sort of priorities of an MBA course.

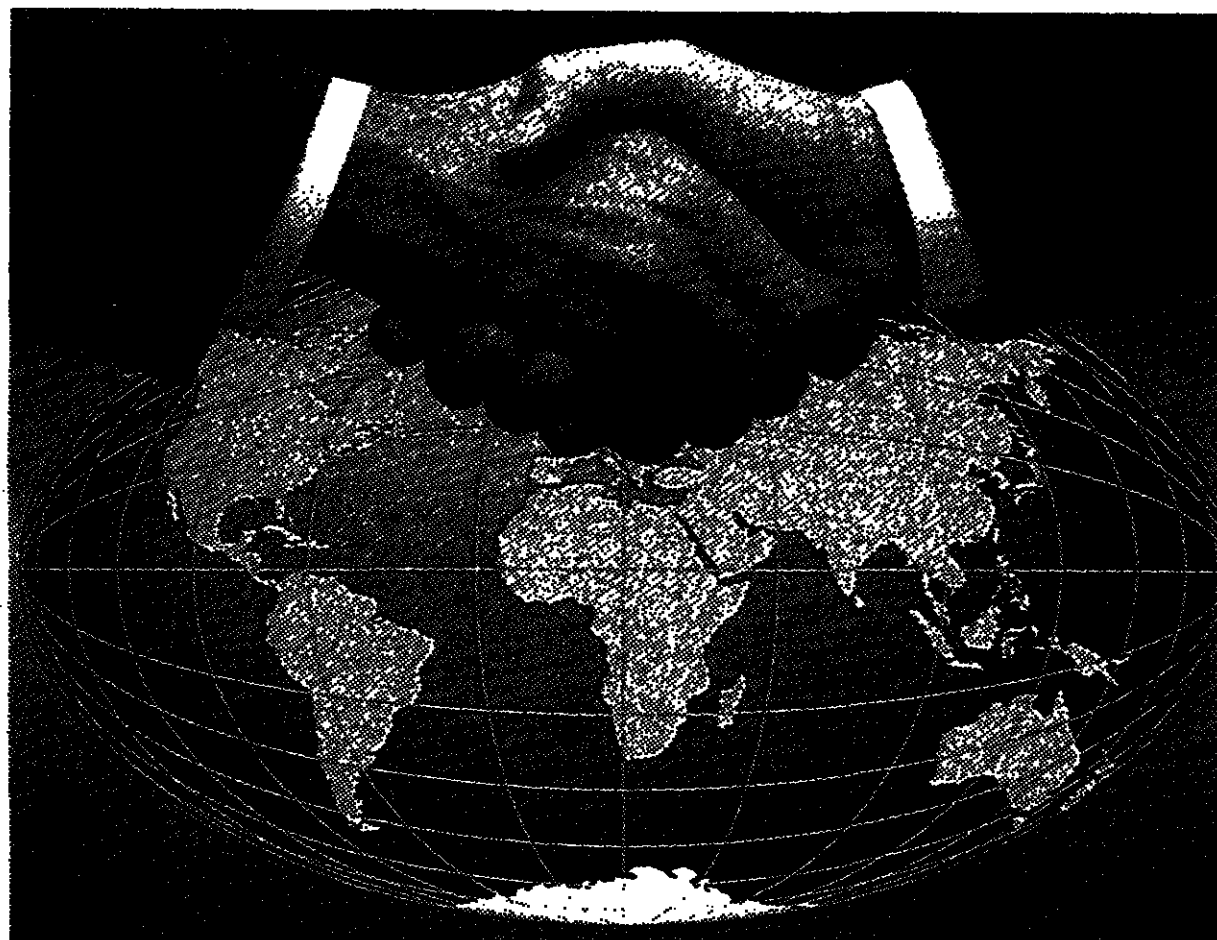
By the 1960s, as Spain began accelerating into development, Mr Escamez was already effectively running Banco Central. His managerial talents were recognised by the bank's main shareholders, members of the domestic financial oligarchy whose seats on the board passed from one generation to the next, and they were sponsored in particular by Mr Ignacio Villalonga, a true blood member of that clan who made him his protégé.

Mr Escamez, rotund and avuncular, is fond now of formulating *bon mots* in his squeaky voice that none would dispute: "One of the advantages of being a veteran is that you have seen so many errors being made."

Those who see him in a less favourable light argue that he has failed to take opportunities in the same way that he has avoided making mistakes.

"When you have been around as long as he has, and you've been in the business so long, your vision is biologically and intellectually limited," says one rival bank chairman. "Instead of thinking about the

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NEWSLETTERS

SPAIN 4

Insurance: despite upheaval in the life sector and a crisis in motor coverage...

Hopes rise for a recovery in profits

SPAIN'S INSURANCE industry appears to be back on track after two recent hiccups. It continues to grow rapidly, especially in the life sector, as under-insured Spaniards begin to catch up with the rest of Europe.

There are now hopes that profitability, dented by the row over *primas unicas*, the controversial short-term life insurance policy, and the mini-crisis in the country's motor insurance industry, could begin to recover.

Between 1983 and 1989, the Spanish insurance sector was one of Europe's fastest growing financial-services markets, with growth rates on average at least 7 per cent a year in advance of the steady expansion in the national economy. Last year, according to provisional figures, premium income earned by the country's leading 76 insurers (which account for the bulk of the sector) rose by 16.4 per cent in nominal terms to Ptas211,912m (\$11,433m), well ahead of growth in GDP.

The increase was achieved despite strong rate competition, especially in the larger industrial-risks area, where softness in the European reinsurance market is feeding through into low domestic rates.

In the competitive commercial-risks sector, rates have fallen by about 50 per cent since 1985, according to one Madrid-based broker.

Even taking into account recent growth, Spain - by European standards - is still a relatively underdeveloped market, indicating that there is considerable potential for further growth. According to a recent report by investment house Goldman Sachs, "There is no reason, considering the dynamics of the market, why this should not continue for the next five to 10 years."

Spaniards buy less than half as much non-life and less than a third as much life insurance as British customers.

Moreover, growth has been accompanied by profitability. Insurers in some sectors have produced technical profit margins of over 20 per cent of premiums in recent years, impressive rates of return in a country where profitability in general has been depressed of

late. Against this background, the long-term significance of the recent controversy over *primas unicas*, the short-term savings policy sold in large quantities by Spanish insurers until late 1989, wanes slightly. Even so, provisional figures for premium income for the leading 76 Spanish life insurers during 1990 (accounting for the bulk of income in the sector) indicate the scale of the dislocation caused when the Spanish tax authorities declared that the policies were not legitimate life insurance policies, and that income from the policies was

Spaniards buy less than half as much non-life and less than a third as much life insurance as British customers

taxable. Life premiums fell from Ptas2,600bn in 1988 to Ptas1,900bn in 1989 and Ptas38bn in 1990. Naturally, companies specialising in *primas unicas* were hit hardest. Euroseguros, the insurance arm set up by Banco Bilbao Vizcaya (BBV) to sell savings-related life products, saw its sales decline from Ptas21bn in 1988, to Ptas14bn in 1989, and Ptas10bn last year. Caixa Pensiones Barcelona suffered an even more precipitous fall in its income, with income collapsing to a mere Ptas8bn, over 90 per cent less than in 1989. Caixa Catalana saw its premium income also fall dramatically to Ptas3.4bn, more than 80 per cent less than in 1989.

Worse still, many of the insurers that sold *primas unicas* are locked into potentially long-running litigation with the Ministry of Finance and Economy over the payment of taxes owed on sales of the policies - amounting to around Ptas400bn. It could be at least five years before any of these problems are sorted out.

The motor-insurance sector, which generates over 40 per cent of premium income in the non-life sector, has also produced some acute problems. The situation in motor is "absolutely dramatic", says Mr Gerardo Arostegui, the presi-

dent of Plus Ultra, the subsidiary acquired last year by Norwich Union of the UK.

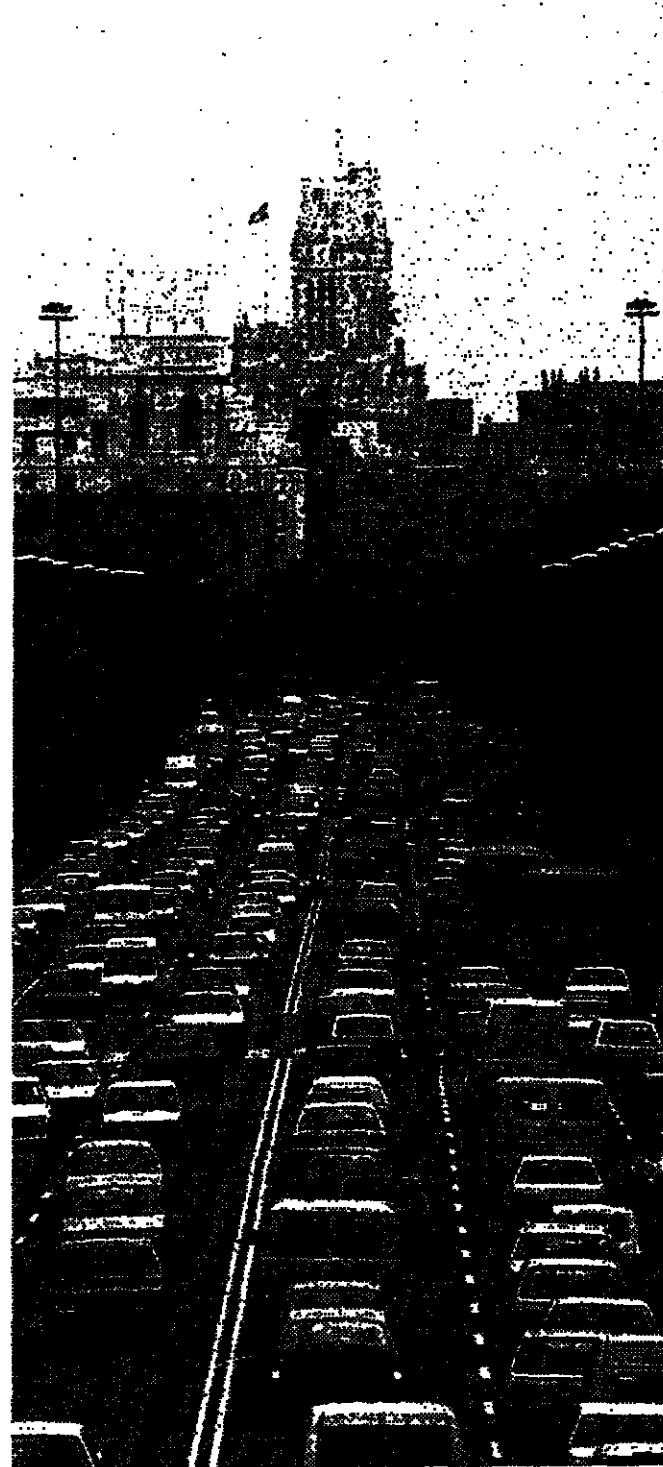
Underwriting losses in the motor sector amount to an average 125 per cent of premiums, and for many of Spain's smaller companies could be as high as 160 per cent. While rate competition has depressed premium levels, reducing income, claims costs have risen sharply, partially reflecting high accident rates and rapidly escalating court awards to accident victims.

In 1990, Spanish authorities recorded 6m accidents, compared with the 14m cars registered in the country. In France, by comparison, there were 5m accidents, compared with 25m cars registered. The poor state of many of Spain's roads also contributes to problems, while high awards by judges to accident victims have also added considerably to claims costs. Many companies, especially those dependent on motor business, are in particular difficulties. Goldman Sachs claim that the industry in general could be under-reserved to the tune of between 25 and 30 per cent.

Insurers, though, accept that both problems have brought some benefit. On the one hand, by selling *primas unicas* so successfully via banks, life insurers discovered that banks can be very effective outlets for sales of life insurance policies. And in the last year a number of new distribution alliances have been formed, which should help increase sales volumes of the risk-based life policies (such as endowment policies) being developed by the industry.

On the other hand, the difficulties of the motor sector is helping to reduce the number of insurance companies in Spain, producing rationalisation which should eventually lead to a more efficient and fitter industry. Many of the 151 companies put into liquidation since 1984 are motor insurers. (The number of insurance companies in Spain has fallen from 558 in 1984, to 455 in 1990, according to the Ministry of Finance and Economy). Spanish market sources expect that as many as 100 more companies could disappear in the next one to two years.

Richard Lapper



The motor-insurance sector has produced acute problems. Accident rates and court awards to accident victims are high

The challenge from foreign insurers

Swiss set the pace

RAPID GROWTH, rates of return in excess of 20 per cent and enormous future potential make the Spanish insurance market one of the most attractive in Europe, and something of a battleground for insurers seeking to build a continent-wide presence.

French, German and Italian giants have all been active. Unexpectedly, though, three companies from a non-EC country, Switzerland, have been making the strongest running recently, while a British company, Norwich Union, has made one of the biggest investments in the last 18 months.

Two Swiss companies - Zurich and Winterthur - are among Spain's top five non-life insurers, while a third Swiss insurer, Schweiz (a subsidiary of the giant reinsurer, Swiss Re), is one of the fastest growing foreign insurers in Spain. Schweiz increased its non-life premium income last year by over 40 per cent, to Ptas2,236m (\$304m), nearly three times its income in 1988.

Both Zurich and Winterthur have long-established operations in Spain. Zurich, the fourth biggest insurer in the country, made strong progress in the life insurance area in 1990, increasing premium income there by nearly 57 per cent.

The local subsidiary of Winterthur has been particularly aggressive in the motor market, local market sources claim. Winterthur's premium income in non-life increased from Ptas1,482m to Ptas3,651m in 1990. Winterthur has been established in Spain for over 50 years, but has begun to chase business much more aggressively since the mid-1980s.

The company's extensive agency network means that there is a relatively low-cost distribution system. Winterthur has 3,000 agents under its direct control, which depend on 40 regional offices.

British companies have been criticised for their failure to make progress in Europe, so Norwich Union's acquisition of one of Spain's blue-chip companies, Plus Ultra, is to some extent surprising. Norwich Union, one of the UK's biggest mutuals, paid over \$200m for Plus Ultra last year, coming under fire from some quarters for an amount nearly two

SPAIN'S TOP 10 NON-LIFE INSURERS by premium income (Pta millions)

	1989	1990
Mapfre	72,500	91,813
Mutua Madrileña	41,851	42,540
Banesto	40,200	45,422
Zurich (Switzerland)	34,754	40,116
Winterthur (Switzerland)	31,482	36,051
Banco Central	31,857	34,338
Allianz/RIAS (Germany)	28,165	32,065
Schweiz (Switzerland)	22,782	32,399
Santa Lucia	25,948	30,133
Catalana Occidente	27,738	30,004

Source: Mapfre

times the premium income of Ptas2,577m earned in 1990. But the company insists that the investment represents money well spent, and sees Plus Ultra as a key piece in a broader strategy to develop its European operations.

"Plus Ultra is a unique company in Spain with very high quality management," says Mr Bob Burke, Norwich Union's general manager with special responsibility for Europe.

Mr Burke said that Norwich had been examining options in Spain, as part of a general plan to broaden its European operations, when the company was tipped off that Banco Bilbao Vizcaya was about to unload Plus Ultra - surplus to requirements following the merger between Banco Bilbao and Banco Vizcaya, which created BBV in 1989, and which brought two other insurance companies, Euroseguros and Aurora Polar, under the same ownership.

With the market expecting a large French or German company to take over, Norwich moved very fast. "They didn't think a British company would be interested," said Mr Burke.

Originally owned by Allianz, before being owned by Basque business interests (and eventually by Banco Vizcaya, in 1977), Plus Ultra developed an expertise in commercial-lines insurance.

Norwich Union was particularly impressed by a group of young executives around the company's president, Mr Gerardo Arostegui, who had drawn up a strategy to develop the company's personal lines business in the mid-1980s, to produce a more broadly-based and diversified company.

More volatile and competi-

tive commercial-lines business now accounts for about 35 per cent of Plus Ultra's book, compared with 60 per cent five years ago.

At preliminary meetings - often held in Paris, partly to deceive the Spanish press corps - senior managers from both companies established a good rapport.

"We were very good at getting on well together," says Mr Burke. Plus Ultra, for its part, was highly impressed with the thoroughness of Norwich Union's due diligence procedure.

Strategically, the real worth of Plus Ultra lies in the strength of its distribution network. "We think the prospects are tremendous. It is a good company that has a good relationship with distribution channels - agents and banks," said Mr Burke.

In Catalonia, Plus Ultra has developed a particularly sophisticated tie, underpinned by state-of-the-art information technology, with the Banca Catalana, a regional bank which is a subsidiary of BBV. "It was the simplicity of the thing that appealed to me," says Mr Burke. "I've been around a long time, but I never thought it would be in Barcelona that I would find something that would really impress me."

With the backing of Norwich, Plus Ultra is now actively seeking partners to develop the co-operation where in Spain. Norwich Union, meanwhile, is keen to look at the possibilities of using the technology elsewhere in its European operations.

Richard Lapper

Richard Lapper traces the extraordinary success of Mapfre

From semi-bankrupt to star

"IT IS a unique case in the history of world insurance," observes one prominent Spanish insurer, commenting on the extraordinary growth of Mapfre, Spain's biggest insurance company.

Within 40 years, Mapfre has been transformed from a semi-bankrupt insurer of workers' compensation risks to become the country's most successful insurer. Last month, the group posted a 37 per cent increase in pre-tax profits for 1990.

Business rivals may dislike Mapfre's stubborn independence - the company has never joined the country's industry association Unespa, for example - but most respect its efficient management and commercial acumen.

"Mapfre has done a great job in its professionalism, training, and the way it decentralises decision-making. It is growing at an incredible pace. It is the only insurance company in Spain that has a real international strategy," says Mr Manuel Vivas, general manager of brokers Gavial Alexander.

Much of this success is attributable to the singular leadership of Mr Ignacio Hernandez de Larramendi y Montiano, the company's veteran president who retired earlier this year.

Idiosyncratic and publicity-shy, Mr Larramendi was inspector of insurance at the economy ministry when, in 1955, he was invited by Mapfre's board to take control of the company.

Founded in 1933, Mapfre was by the mid-1950s verging on bankruptcy. Mr Larramendi insisted on an austere approach. "The first thing he did," recalls Mr Alberto Manzano, general secretary of Mapfre, and an authority on the history of the company, "was to reduce his own salary and sack the company's chauffeur."

Mr Larramendi eschewed the expense-account lifestyle favoured by his competitors. Within the company, he encouraged his senior managers to share the services of secretaries, establishing a business ethic which permeates every aspect of the company's activity.

His other main priority was to diversify the company's underwriting activity away from the workers' compensation business, which in 1955 accounted for 75 per cent of its premium income.

Mapfre began insuring lorries and buses and writing life insurance in the then embryonic local life market. In the mid-1960s, the company began

writing motor insurance and life insurance. Mr Larramendi emphasised the importance of tight underwriting standards. Influenced by the experience of US insurers such as Factory Mutual, he introduced risk-control techniques, offering a reduction in premiums to companies that agreed to introduce sprinkler systems to reduce the risk of fire, or safety systems to

reduce the risk of accidents. The result was a tightly run, efficient company with good underwriting results. Mapfre's expenses (excluding reinsurance premiums) are among the lowest in the Spanish insurance industry, especially in the troubled motor sector.

According to Mapfre Corporation's general director, Mr Domingo Sugraves, Mapfre's organisation minimises hierarchy and maximises the involvement of middle management in strategic thinking: "Bureaucracy exists, but we try to make it as little as possible."

The other steps have been pivotal for Mapfre's later growth in the 1970s and 1980s. Like other Spanish companies, it had distributed its insurance products via semi-independent agents to which it paid commissions on sales. In the late 1960s, Mr Larramendi began to increase control over this distribution network, reducing the independence of agents and making their payment dependent on underwriting results as well as on sales of insurance.

He also secured a strong capital base, which paved the way for the rapid expansion of the last ten years. The company's investment strategy has been successful, too, with prime-site properties in Madrid and Barcelona rising in value in spectacular fashion in the late 1980s. Organisational reforms introduced by Mr Larramendi in the late 1970s have also proved to be equally crucial.

As a mutual insurer owned by its policyholders, Mapfre Mutualidad was limited in the extent that it could raise capital from the markets. However, by demutualising the company, Mr Larramendi might have rendered it vulnerable to takeover, especially at a time when European interest in the Spanish market was increasing. So

instead, Mapfre opted to create a new listed company, Corporación Mapfre, in which the parent, Mapfre Mutualidad, retains a 52.4 per cent majority. Mapfre's agricultural risks and information-services subsidiaries are linked to the Mutual. Separate life insurance, reinsurance, life, property, credit and technology subsidiaries are linked to the Corporation.

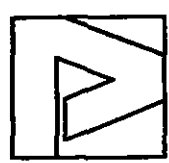
With profits growing rapidly, Mapfre has restricted dividend growth and reinvested earnings into the company. In addition, there have been a series of rights issues. Shareholders' funds of the Corporation have increased from Ptas1.1bn in 1979 to Ptas50.3bn in 1989, market capitalisation rising from Ptas1.1bn to Ptas154.9bn over the same period.

Mapfre has been most active in Latin America, seeking Mr Larramendi's desire to make the dominant insurer in the Hispanic world. Against the international trend, Mapfre has been buying heavily, establishing a significant presence in

Chile, Mexico and Puerto Rico. It also has subsidiaries in Portugal and Italy, and has recently expanded its activities in London, having bought MAP Securities, a securities house, possibly as a first step towards developing fund-management expertise.

More recently, again fulfilling one of Mr Larramendi's ambitions, Mapfre has established a bank, complementing its home and motor insurance, life insurance and mortgage and consumer loans services with a deposit-taking facility. This completes the range of financial services offered by the group at a time when Spain's banks are all examining the possibility of selling insurance products across their counters.

By the end of this year, Mapfre expects to have 50 branch offices established throughout Spain, and hopes eventually to have bank units attached to all of its 1,500 insurance offices. Unorthodox this may be, but unorthodoxy has served Mapfre well in the past.



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CONSOLIDATED FIGURES as of March 31, 1991 (Amounts in millions)

Shareholders' Equity and Minority Interests	Ptas. 174,992 (US \$ 1,651)
Customers Funds	Ptas. 1,854,331 (US \$ 17,496)
Total Assets	Ptas. 2,506,677 (US \$ 23,651)
Loans and Discounts	Ptas. 1,296,705 (US \$ 12,235)
Net Income for the Period	Ptas. 11,677 (US \$ 110)
Net Return on Equity	27.05 %
Net Return on Average Total Assets	1.93 %
Number of Employees	11,825
Number of Branches	1,678

Exchange rate at March 31-1991 US \$ 1 = 105.986 ptas.

BANCO POPULAR'S RATINGS IN 1990

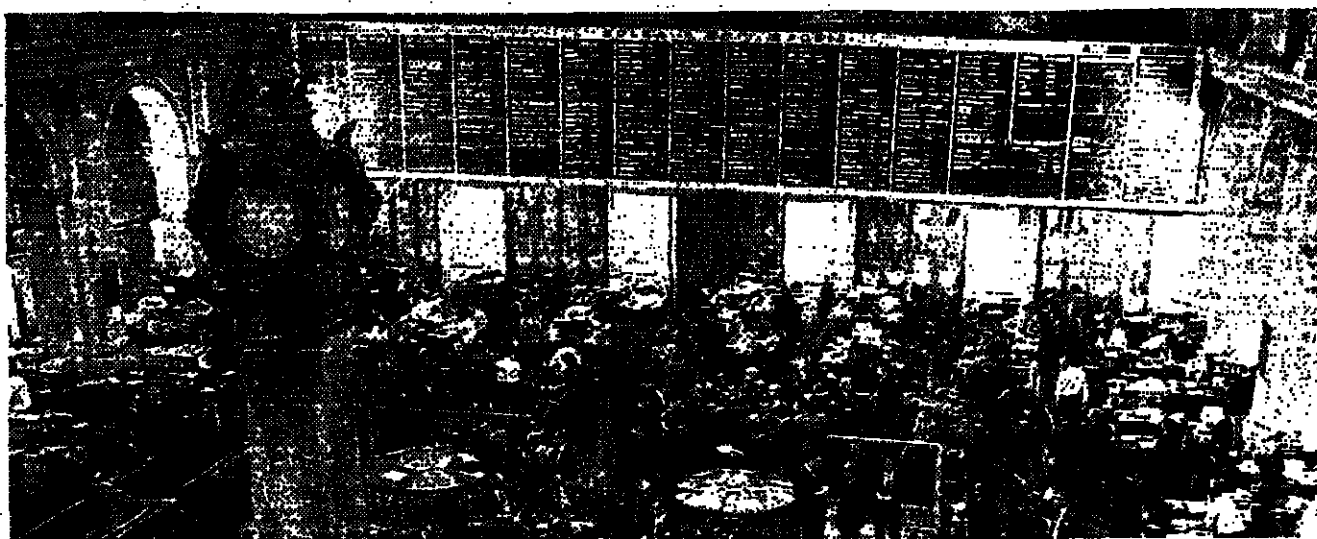
- The best bank in the World by Euromoney magazine
- The most profitable of the world's Top 200 largest banks by Business Week
- Ranked first in "The 100 best stocks to own in the world" by Gene Walden
- The best bank by Rating magazine
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The Madrid stock exchange, like the other three, is involved in plans to establish an efficient fixed-interest market

David Owen on electronic evolution at the stock exchanges

Regionals seek new roles

THE MAJESTIC 1,500 square-metre trading room of the Barcelona Stock Exchange is awash with dealers. Middle-aged men haggle good-humouredly as we thread our way through them to get a better view of the ornate chandelier. Dark stone arches provide an austere backdrop. A computer terminal sits incongruously and neglected near the middle of the room.

But appearances can be deceptive: these are not stock traders but members of the local Tuesday-only commodities market. In fact, Spain's three regional stock exchanges (in Barcelona, Bilbao and Valencia) risk being made largely redundant by the spousal of electronic trading as part of a far-reaching market reform executed in July 1989.

More than 90 per cent of trades are now conducted on a screen-based computer-assisted trading system (Cats), although face-to-face dealing continues, chiefly for small capitalisation stocks. After Cats was brought in, Barcelona's share of the overall Spanish market slid quickly from 17 to 10 per cent, although the decline has since levelled out.

In Barcelona's case, according to Mr Walter Scherk, assistant managing director, the exchange could "tick over as at present" for some time since it still makes money. But gener-

ally speaking, the regionals are casting around for new strings to their respective bows.

All four exchanges, including Madrid, are involved in plans to establish an efficient fixed-interest market. "What we are going to do is provide an electronic system for the current dematerialised over-the-counter market," says Mr Pedro Vinolas, head of research at the Barcelona exchange.

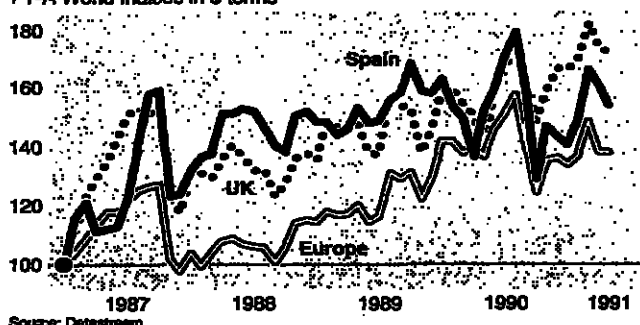
Madrid's target is to lift to 50 per cent, from just 5 per cent at present, the proportion of its overall business that fixed-interest instruments comprise. It expects rapid growth of the country's underdeveloped institutional investment sector to propel it towards this goal.

As Mr Luis Carlos Croissier, chairman of the Comisión Nacional del Mercado de Valores (CNMV), Spain's stock market commission, has said: "If there is a characteristic that sets our stock market apart from others in Europe, it is the minimal role played by collective funds and institutional investment."

The reform also led to the creation of 57 brokers, subject to strict capital adequacy requirements, who are now joining for business amid projections that many will not survive. Competition will intensify at the start of next year when fixed commissions - currently pegged at 25 basis

How the market has moved

FT-A World Indices in \$ terms



points - are abolished. In fact, informal discounting is already taking place. "The average charge is about 15 basis points," says Mr José Luis Fetto of the broker Asesoría Bursátil (AB). "That is a figure we have heard from clients pushing us to reduce our brokerage fees."

The brokers fall into three broad categories: those who have teamed up with domestic or foreign banks; a few diversified independents; and those who are trying to turn themselves into no-frills discount houses.

In the early days, it was widely assumed that the bank-backed institutions would prevail. But now opinions differ as to which firms will be most hard-pressed to survive.

Mr Fetto still feels that the comportment of the banks is his biggest worry. "If a customer works with the securities house affiliate of a commercial bank, he gets a much better price for pure banking services than if he goes through us," he says.

By contrast, Mr Francisco González, chairman of FG, another independent broker, feels that the lackadaisical approach of many bank-affiliated brokers has enabled firms like FG to thrive. "We succeeded because the banks used stockbroking firms as an extension of their operations without putting any commitment into it," he says.

The comments of Banco Zaragozano president Mr José Ramón Randeles help to add

substance to this view. Mr Randeles was "not very much in favour" of the bank's decision to invest in a broker. "I don't think it will be a very profitable business in future," he says.

Cats is universally rated as a success for making the market more efficient and transparent nearly two years on, but a variety of other problems remain.

The Madrid stock market index is still well down on pre-Kuwait invasion levels, despite something of a rally in March. New listings are rather infrequent. AB's Mr Fetto blames this fairly and squarely on Spain's "severe" treatment of capital gains. (The top rate of capital gains tax for individuals is 56 per cent, treated as an integral part of income tax.) "There are many large and profitable Spanish companies that are not quoted solely because the tax treatment of capital gains prevents it," he says.

The market retains a clubby image. Most observers accept that this will take time to change, despite the considerable powers now vested in the CNMV, and despite the credibility this body gained through the penalties doled out in the case of *Repsol* for irregularities during the \$1.1bn part-privatisation of the big energy conglomerate.

"We have strong regulations but the problem is making them work," says Mr Sebastián Ubría, a CNMV adviser. "In this country it is normal to go from no regulation to very strong regulation but for the regulation not to work."

Mr Ubría says that the two biggest problems the CNMV faces are insider trading and *autocartera* or the buying and selling by companies of their own Treasury stock. "It is the first time that these have been as administrative offences," he says. "That is a very important cultural change."

The settlement system needs to be improved. Currently trades are officially settled on just one day a week (Friday) in the week following the date on which they actually took place. A new system, under which settlement would take place daily and a maximum of five days after the event, is in preparation.

Estimates of the likely implementation date for the new system range from January to June 1992. In the meantime, many banks have started to operate an informal "rapport" system, whereby trades are effectively settled six or seven days after the event.

Derivatives-trading looks different, too

In place of the pit

NO PROFANE lapel badges. No gaudy traders' jackets - indeed, no traders. The trading floor of Barcelona's Mercado de Futuros Financieros (Meff), the Spanish financial futures exchange, is every Chicago local's worst nightmare made reality.

Instead, a squat mainframe computer sits in the middle of a glass room, accompanied by two smaller back-ups and an emergency generator. The only people in the vicinity are a dozen computer-programmers and their support staff, along with three telephone operators. The combined electronic and telephone-based trading system operated in Madrid by the Mercado de Opciones Financiero Español (Mofex), the Spanish options exchange, is similarly unimpressive.

In fact, as Mr José Luis Oller - Meff's chief executive officer - points out, "the Spanish regulations do not allow individuals to be members of the market". Consequently, locals - or individuals trading on their own account - do not exist. "We follow the marketmaking system with a number of banks acting as marketmakers on screen," Mr Oller says.

He cites three reasons why Meff, whose first contract was launched just over a year ago in March 1989, espoused an electronic approach to futures trading.

It is cheaper than pit dealing. It permits the exchange to be based in Barcelona, while many members are "happily working" some 600km away in Madrid.

Spanish stock markets had recently moved to an electronic system. Mofex, in turn, cites low costs as part of the rationale for adopting its combined trading system: members do not need to invest in computer terminals. The exchange began trading four months ahead of Meff, in November 1989, and was formerly known as OM Ibérica.

The name-change - implemented in February - followed a reorganisation of the exchange's ownership in the wake of the sale by the Swedish options group OM of its 30.6 per cent interest. This was held through its OM International subsidiary.

"We saw it as rather natural for us to sell our shares to make it possible to have a broader ownership," says Mr Michael Konstad, of OM. "We still have a royalty contract with Mofex, because they use our technology."

Though tiny by international standards, both institutions have established themselves relatively quickly and fairly successfully.

First-quarter trading at Mofex totalled 102,045 lots, the vast majority in its three-year notional bond option contract. The corresponding figure at Meff was 143,930 lots, with 63 per cent of trades in its three-year bond future.

Both exchanges also offer shorter-term contracts based on the 90-day Mibor reference rate. Meff last month launched a five-year bond futures contract following the Spanish Treasury's recent success in issuing five-year debt. It is not yet clear whether Mofex will follow suit with a matching option. "We think it is a bit premature," says Mr Ignacio Solloa, the Madrid exchange's financial director.

Under the present regulatory framework, Spanish derivatives markets are restricted to trading debt-related instruments. "We were born out of the regulations for the official bond market, as an extension of it, and not properly speaking as a futures market," Mr Oller explains.

New rules specifically for the derivatives markets are in the pipeline, however. "We have finished a draft, and the aim is to have it out by the summer," says Mr Sebastián Ubría, a adviser at the Comisión Nacional del Mercado de Valores (CNMV), the stock market commission that is expected to be responsible for regulating the industry under the new regime.

Once these rules are in place, new derivative contracts in currencies and stock indexes are forecast to follow in short order. Mr Oller expects a stock index future, as well as both peseta-dollar and peseta-Deutsche Mark contracts, to be up and running by the year-end. "We are making an effort to get an index that is independently calculated," he says.

Overshadowing such plans and much else at present,

though, are negotiations that may result in the merger of the two exchanges, or at least significant changes in the manner in which individual derivatives contracts are distributed between Barcelona and Madrid.

The case for one exchange rests on efficiency: simply stated, Spain is not a big enough market to support separate futures and options trading arenas.

Though logical, however, this path is fraught with intractable political difficulties. Concentrating derivatives in Madrid would offend Barcelona, which is extremely sensitive to the capital's increasing predominance as a financial centre. Shifting entirely to Barcelona, on the other hand, is hardly likely to appeal as a course of action to the Madrid Stock Exchange, which is Mofex's largest shareholder with a 30.2 per cent stake.

In a bid to carry the day, the Generalitat - the autonomous government of Catalonia, where Barcelona is located - recently offered to put up Plalb to help cover the cost of a merger, provided the resultant entity was Barcelona-based.

Should political sensibilities indeed contrive to prevent an out-and-out merger, the impending proliferation of contracts may lend itself to a situation where related families of futures and options are based at the same exchange.

Says the CNMV's Mr Ubría: "Many people are now suggesting that the rational division of work is not between futures and options but between products."

Meff's Mr Oller at one point hints at such a solution. "It is possible that we would give Mofex some measure of responsibility for stock index futures and options," he says.

He insists, however, that "a condition for a merger is that the exchange be based here". "Our idea is to save some market activity in Barcelona by having derivatives here," he adds.

Mofex's Mr Solloa says simply that the final decision depends on the shareholders of the two exchanges. "It is possible that both could survive separately," he says.

David Owen

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David Owen profiles Repsol, the integrated oil company

Gas-distribution merger is likely by end of the year

MR OSCAR FANJUL is a dead ringer for some of those elegant 17th-century noblemen who populated Diego Velázquez's paintings.

But the bearded and personable Mr Fanjul is less likely to be seen adorning the Prado museum than the boardroom of Repsol, the integrated oil company which is Spain's largest private-sector industrial group in revenue terms.

Repsol chairman since 1986, Mr Fanjul likes to refer to himself as "the veteran among European oil company chair-

men". Large by Spanish standards it certainly is, but Repsol, which reported net profits of Ptas67.7bn (\$707m) on revenues of Ptas1,571bn (\$16.4bn) in 1990, is only a second-tier energy company from a global perspective.

By its own reckoning, the group is the fifth-largest oil company in Europe. In refining, one of its strongest legs, with domestic capacity of 720,000 barrels per day, or some 60 per cent of the Spanish total, it stands "about tenth" worldwide.

Mr Fanjul is nonetheless confident that the company - which also boasts substantial petrochemical operations and beneficially owns over two-thirds of Campsa, Spain's principal transporter and retailer of petroleum products - "is big enough to have critical mass". There is no question of a foreign partner being brought on board, except for isolated ventures, and Mr Fanjul professes to be "not interested" in large acquisitions, because "the prices being paid are very high".

In 1989, the group did acquire a relatively small presence in the UK, by buying Carless Refining & Marketing and Carless Petroleum, which specialise in high value-added

petroleum-based products such as solvents, white oils and drilling fluids. Repsol began operations only in October 1987, following a reorganisation of the oil and gas businesses then owned by the government's Instituto Nacional de Hidrocarburos (INH).

It was part-privatised in 1989 in a \$1.1bn operation that was much the largest ever undertaken on the Spanish capital markets. INH still holds about two-thirds of the shares, a further 10 per cent of which are now in various North American hands.

The privatisation was the second-biggest that year after the mammoth sale of the UK water companies. The British flotation was "one of the reasons why we couldn't sell a larger proportion of the shares," Mr Fanjul says.

According to Mr Fanjul, the discipline instilled by moving into the private sector and the reporting requirements arising from the group's New York Stock Exchange listing have "helped us a lot".

"One of our main characteristics is that we operate as a private company," he says. "We have introduced professional managers; we don't have politicians running the company. One of the things about a state company is that the management changes too often."

When looking for a weak link, analysts tend to point to the group's upstream activities; the company last year produced only about a quarter of its refining needs.

Mr Fanjul acknowledges the weakness, admitting: "You would always be happy having 200 per cent instead of 25 per cent of your requirements." But, he says, the group is "very happy not to have acquired more reserves at the prices being paid".

Nor is the chairman intent on making good the shortfall at breakneck speed. "We are spending around \$100m a year on exploration, which is not an exceptional figure for a company of our size," he says. "We are not bullish about the evolution of crude-oil prices; for that

reason we have not made important acquisitions of reserves."

Much more of a strategic priority is natural gas, which has historically been under-used in Spain, as recently as 1983 accounting for only 2.7 per cent of primary energy consumption.

The group hopes to finalise details for a merger of its gas-distribution assets with those of La Caixa, the big domestic savings bank, to form one of Europe's largest gas utilities by the end of the year.

"We have been trying to create a gas company of medium size at international level, and we will do this by merging 13 of the 15 Spanish distribution companies," Mr Fanjul explains. "It is an area of growth for us."

The agreement in principle with La Caixa has cast considerable doubt over the future of the 10 per cent stake held by British Gas in Catalana de Gas, the country's biggest gas company. Repsol owns 17 per cent of Catalana, while La Caixa has 34 per cent.

Government debt: David Owen explains why Spain is so attractive to foreigners

New tax rules will speed repayment

MR ALVARO PERNAS has not been getting enough sleep lately. The dark rings under his eyes attest to the surging level of foreign interest in Spanish government debt.

"In the first quarter of this year, the bank did 70 per cent of the foreign volume it did in the whole of 1990 - which was a good year," says the Banco Santander de Negocios capital markets executive. "It is satisfying for us, although I am pretty tired."

All told, the value of Spanish bonds in the hands of foreigners soared by 250 per cent in the first 12 weeks of the year, to approximately \$12bn. Non-resident holdings of Treasury bills rose more sedately to about \$1.5bn.

The principal reasons for Spain's current attractiveness are two-fold.

First, peseta debt combines high real yields with a hard (i.e. ERM-constituent) currency. Second, the government this year effectively abolished, with effect from January 1, a 25 per cent withholding tax on interest paid to most non-resident bondholders.

"The lifting of the withholding tax stemmed from the gradual realisation that with the tax you have little chance of real foreign interest in your

markets," explains Mr Manuel Conthe, the youthful chief of the Spanish Treasury.

In practice, non-resident bondholders have been kept waiting for their tax reimbursement by a cumbersome claims procedure which can take months to work its course. But new rules to speed up repayment, making use of the Bank of Spain's book entry system for Treasury instruments, are under formulation, and are expected to be in place in June. Reimbursement should then be possible within one or two days.

"The idea is that the foreign investor will not even notice that the tax has been withheld," Mr Conthe says. "What is important for us is to have some means of telling non-residents from Spanish residents who still have to pay the tax."

According to the Treasury chief, the new rules will also contain a clause, "following the UK tax code", to prevent "coupon washing" by Spanish residents to escape the tax net.

The Treasury has good reason to keep foreign investors sweet even though it has already achieved its funding targets for 1991. Spain's budget deficit is forecast to fall to 0.5 per cent of gross national product this year.

Bank lending limits saw a rise in commercial paper, but now...

Old credit routes are back

LAST YEAR'S explosive growth of the Spanish commercial paper market undermined the truth of the adage that if you attempt to regulate a market - in this case, the credit market - somebody will craftily unregulate it.

An estimated Ptas7,000bn (\$70bn) of the pagarés de empresa were issued last year by hundreds of Spanish companies. As little as six years ago, this market scarcely existed.

It was the Bank of Spain that lit the blue touchpaper in 1983, by deciding to impose rigid lending limits on domestic banks in a bid to cool the economy. This came a few months after a measure which effectively put foreign borrowing

off-limits by requiring companies to deposit 30 per cent of any non-Spanish loans with the Bank.

The combined effect left corporations who were desperate for capital to fund expansion and to make strategic investments ahead of the single European market in an invidious position - which, of course, is exactly what the Bank intended.

Many of them resolved the problem by the simple expedient of getting up and finding their own lenders. In the process they often discovered that this did not cost much more than borrowing from a bank

anyway: there were plenty of prospective lenders whose appetites had been whetted by the returns that the fledgling commercial paper market had already been yielding.

"When you can get 15 per cent, it is hard to put your money in a bank account," says Mr Alvaro Pernas, of Banco Santander de Negocios. "Between 1987 and 1990, those who remained in the market have been outperforming anyone who invested in three- or five-year bonds," he adds.

Borrowing short-term also suited the paper's issuers, who were understandably reluctant to lock into high interest rates for a prolonged period.

The party which the rapid growth of the market emphatically did not suit was the central bank, whose attempted credit squeeze was comprehensively fished.

With the credit restrictions now scrapped and the 30 per cent rule recently lifted, it looks as though the market for pagarés may have shot its bolt, since companies once again have a full menu of borrowing options available to them.

To compound matters, the standard 25 per cent withholding tax has been abolished on government paper. The first ripples of concern over corporate creditworthiness have also emerged, following the default of one substantial borrower in the market earlier this year.

Not that anybody expects the market to atrophy overnight. An active secondary market in the securities has sprung up, and an electronic clearing system is in place. But the rate of growth is widely expected to slow markedly.

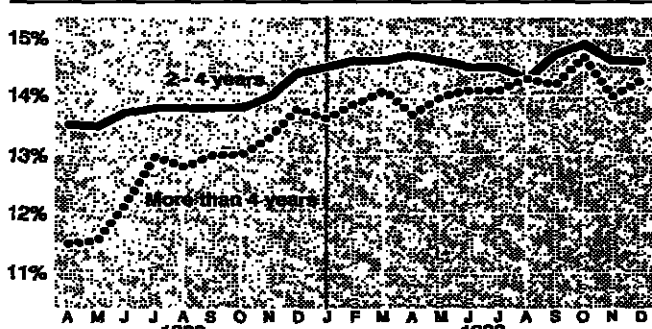
Observers feel that small companies will return to their banks while larger ones may seek to borrow abroad where they should be able to raise funds more cheaply.

"I think there will be a lot of foreign borrowing in preparation," says Mr Francisco González, chairman of FG, the independent broker. "I would not be at all surprised if six months from now you saw a big bulge in international loans."

Such a development might well underline the truth of the adage that every cloud has a silver lining. A necessary concomitant to non-peseta denominated borrowings would presumably be a home-grown currency swaps market. "Yes, we are working on that," says Mr González emphatically.

David Owen

Treasury bond yields



Source: Banco Santander de Negocios

Their explosion of interest, after all, has helped its efforts to lengthen the abnormally short maturity profile of its debt, build a credible market in Spanish medium-term paper and relieve its heavy short-term payments burden. No less than 54 per cent of Spain's overall stock of debt comes due this year, according to Treasury officials.

In contrast to prior years, when 18-month Treasury bills took the strain, three- and five-year bonds have this year emerged as the Spanish government's basic tool of financing.

This has lifted the average length to maturity of government debt to around 2.5 years from a low point of 1.3, according to official estimates. At the end of 1990, nearly 58 per cent of outstanding debt was in the form of instruments whose term was 18 months or less.

The Treasury has even started to hold monthly auctions of 10-year bonds, although Mr Conthe says that "significant amounts" of these instruments will not be placed. "Issuing 10-year paper is something they have been trying to do for two years," according to Mr Pernas.

Another peculiarly Spanish instrument, which at the end of 1990 accounted for fully one-

fifth of outstanding government debt, is meanwhile being phased out. The 18-month Pagaré del Tesoro is a form of promissory note that pays below market rates of interest to the financial institutions obliged to hold them and the individuals attracted by the freedom from fiscal reporting requirements they offer.

Ironically, their discontinuance has initially worked counter to the government's debt maturity objectives, since the tendency was to replace them with shorter-term Treasury bills.

From next month, however, Pagaré-holders will be able to exchange their investment for a new six-year instrument which will yield just 2 per cent and be known as Special Public Debt. The carrot will be the new instrument's guaranteed tax-exempt status.

"It was a compromise by the government which is not ready to grant a tax amnesty but wants to provide an honourable way out to current holders of Pagarés del Tesoro," Mr Conthe says. "According to the draft law, the buyers may deduct their investment in these instruments from past income discovered by the tax authorities."

According to some estimates, black market money in circula-

tion in Spain amounts to as much as \$40bn.

Other tactics recently employed by the Treasury to lengthen Spain's debt maturity profile have included borrowing in other currencies - euros, dollars and (Euro) French francs - whose markets are more at home with long-term rates than the domestic market. This has led to a decoupling of bill rates from the very short-term official intervention rate set by the Bank of Spain. The Bank is committed to keeping interest rates high to stifle inflation.

Borrowing in non-peseta markets also helps the Treasury to avoid the pitfall - of which Mr Conthe is all too well aware - of locking in excessively high yields for unacceptably long periods. "It is a typical dilemma," he says. "How do you shift the debt profile longer term when you want to bring long-term yields down?"

"We had to strike a balance between our desire to lengthen the maturity profile and the fact that it would have been unwise from a monetary and budgetary viewpoint to lock in high yields."

Profile: Manuel Conthe

The costliness of gradualness

MR MANUEL CONTHE, the Spanish Treasury chief, has a sense of humour to match his striking blue eyes.

In the middle of discussion about attempts to create EC economic and monetary union and Britain's position as "odd one out" in not accepting the goal of a single currency, he hastens to consult the collected works of Walter Bagehot, whom he regards as one of Mrs Thatcher's favourite economists.

In an essay entitled *A Universal Money*, written in 1888, Bagehot argued strongly in favour of one global currency, chiefly on the grounds that it would facilitate trade. "The new system must be one which will do no violence to national jealousies," he wrote.

In Mr Conthe's view, Britain's notion of a gradual market evolution towards a common currency, which could become the single currency if governments decided so later, is like "letting people make up their minds what side of the road to drive on." "It is very costly for the market to regulate itself," he says.

Nonetheless, the 37-year-old civil servant, who is starting to be viewed as a potential central bank governor, was deeply involved in the drafting of Spain's Emu proposals, tabled in January, which supported Britain's "hard Ecu" plan up to a point. But rather than create a new 13th currency (the hard Ecu), Spain suggested "hardening" the existing basket by making sure it did not lose value against those currencies not devaluing whenever there was a European Monetary System (EMS) realignment.

"We tried to make the British proposal even more market-friendly," he says. "We saw a number of circumstances that made us feel it made sense



Manuel Conthe

to support the British proposal as a transitional stage on the way to Stage Three (full monetary union with a single currency)."

On the practical logistics of moving towards Stage Three, Mr Conthe feels that there are a few "politically linked" elements which make it "very hard to make progress on one without progress on another".

"My personal impression is that, if there were a clear commitment to convergence in terms of inflation and budget deficits, the Germans would be much more forthcoming in devising Stage Two (the transition phase)," he says. "I think they are taking the view of not being ready to move on the monetary front until they have tangible evidence that everyone is taking the idea of convergence on inflation and budget deficits seriously."

David Owen

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AND INVESTMENT

SPAIN 7

There's life still in the Spanish bids-and-deals market, reports David Owen

Integration may spur mergers

STATISTICS ARE hard to come by, but the stampede to buy into Spanish companies that started when Spain joined the European Community in 1986 has calmed down.

Observers state that the Gulf war "really knocked the stuffing out of the bids and deals market, although the number of offers doing the rounds looking for financing has again picked up since the war ended.

This followed a moderate year in 1990, when offers were lifted by the announcement of two very large transactions in the final quarter. These were British Steel's prospective purchase of 45 per cent of Arista, the private steelmaker, as part of a joint venture, and Guinness's agreed bid for Cruz del Campo, Spain's largest brewer. The Guinness deal was worth a hefty £533m; it is thought that the British Steel transaction would weigh in at

some £114m.

Various subsidiary factors are cited for the decline in activity.

■ The elevated price aspirations of many sellers. "People want the same multiples as in 1988. That isn't realistic any more," says Mr Juan Perez de Cofre, an investment company.

■ Most of the big deals have already been done. "There are very few companies in hot sectors that don't have foreign participation," according to another observer.

■ The dollar's weakness last year - this had "a significant impact" on the low number of US-related transactions, according to Mr Colin Blessley, a corporate finance partner with Coopers & Lybrand, in Madrid.

All of this is not to say that there is not still life in the Spanish market. Participants reckon that with full EC inte-

gration beckoning, more companies will decide to merge to achieve critical mass.

Some will choose domestic partners, but there are compelling reasons for others to court foreign companies. According to Price Waterhouse partner Mr Augusto San Segundo, those in technologically advanced sectors will tend to seek ties with non-Spaniards. Elsewhere, he says, "size is what matters, so another domestic company will do just as well."

In seeking to merge, companies would be following the example of some of Spain's best-known banks and utilities. Late last month, Hidrola and Iberdrola, the two large private electricity utilities, announced that they were in "advanced and serious" negotiations to create a new company. Meanwhile, Repsol and La Caixa are attempting to

merge their gas distribution assets.

A veritable spate of banking mergers is gathering momentum in pursuit of critical mass. Until earlier this month, Banco Bilbao Vizcaya (BBV) - the product of a marriage between Banco Bilbao and Banco de Vizcaya - was Spain's largest bank. It has since been outstripped first by the agglomeration of state-owned institutions into Corporación Bancaria Española and then by the Banco Central-Banco Hispano Americano tie-up.

Some also expect Spain's strict new accounting regulations (see this page) to spur more of the country's family businesses to sell out as they realise the full enormity of what is proposed. Such businesses still form the backbone of Spanish industry, employing more than 85 per cent of the country's workforce.

From a buyer's perspective, the accounting reform will sooner or later produce an exponential increase in the amount of financial information concerning potential targets that will be available.

"Historically, the most you might have got was maybe the share capital, the identity of the shareholders and directors, and a very broad level of information on sales volume," says Coopers and Lybrand's Mr Blessley. "The changes in disclosure and filing requirements will change that."

Mr Blessley harbours doubts, however, about just how rapidly the Mercantile Register - where accounts will be lodged - will begin to provide an efficient service. "The Registry will be literally bombarded with company accounts," he says. "One has to be sceptical about how this is going to work, at least in the initial period."

Serious foreign buyers will still be advised to conduct due diligence, however, with Spain's widespread tax-evasion problem providing a strong motivation for doing so.

It is not just a target's previous fiscal practices that might be an issue, but the manner in which the seller proposes to minimise capital gains liability. Since the closing of a widely used loophole on Ash Wednesday 1989, schemes devised to achieve this end have ranged, in the words of one market watcher, "from the highly illegal to the imaginative and secure."

The inspiration for this creativity is a top rate of capital gains tax for individuals pitched at 56 per cent and treated as an integral part of income tax.

Says Mr Blessley: "Any Spaniard thinking about doing a deal over the next couple of years will have put in place a structure to make sure some of the amount avoids the Spanish tax network."

But relief may be at hand. Reforms are in the pipeline which could reduce substantially the capital gains levied on assets held for long periods. Under current proposals, according to Mr Blessley, "if you have owned a business for 20 years or more, capital gains tax will be zero."

A register of auditors, which have been popping up like mushrooms at the prospect of all the new business, has been created.

with the minimum of delay. The upshot is that a country that until very recently, was positively neolithic in financial reporting terms will be dragged into the modern age with disconcerting rapidity.

The reforms have updated the Audit law, the Companies Act and the *Plan General de Contabilidad*, the general chart of accounts. The main points to bear in mind are as follows:

■ An official register of authorised auditors - which have been popping up like mushrooms at the prospect of all the new business - has been created. Only registered firms can sign statutory audit reports.

■ Commencing with the year ending December 31, 1989, Spanish companies must lodge their accounts with the Mercantile Registry (an institution similar to the UK's Companies House), where they are available for public inspection. Previously, there had been no filing requirement whatsoever in Spain.

Exchange losses: A transition phase will also apply to exchange losses arising from foreign debt.

One of the government's main motivations for pushing the rules through so quickly was fiscal: tax evasion under the old regime was endemic. Accounting executives therefore quail at the possible fallout from an element of the reforms that makes them responsible for reporting evident fiscal irregularities. Says one: "This is not the optimum legal framework within which to generate the warm feeling of mutual trust between auditor and audited that exists in the best of all possible worlds."

Already, however, it seems clear that this particular stipulation is open to a variety of



Even the steel industry is attracting foreign attention, though AHV's integrated plant in Bilbao is likely to stay in domestic hands

Buying a business in Spain

It's a minefield so do get help

A NEW hotel opened recently in Madrid, which blows a hole in even the best-laid pocket. But for businessmen in town trying to secure an acquisition, the price premiums may be worth every penny.

The hotel only provides suites, and these come complete with individual boardrooms and every extra. Even personal computers to multi-lingual secretaries. The foreign corporate buyer will need every inch of the luxurious space to pace about in, for his negotiations are likely to be tortuous and every extra, from need every business prop available as they sit down to deal with the paperwork.

Acquiring a Spanish company can involve crossing a fiscal and legal minefield, and no time, effort or money should be spared in order to come out safely the other side. Big acquisitions take place almost every month, which means that it can be done, and the prizes are instant market shares in an expanding economy that can be dramatically upgraded by importing management skills are often lucrative.

In the past year, Crédit Lyonnais has acquired two banking networks in Spain; Guinness has bought the biggest domestic brewery; British Steel has purchased the most profitable steel producer in private hands; and Elf Aquitaine has gained a 30 per cent foothold in the main private-sector refinery.

But the acquisition trail has also had more than its share of unexpected mishaps.

Germany's Benckiser bought a Barcelona-based, family-owned detergent company two years ago, and the following day was swept into a legal wrangle with Procter & Gamble of the US, which said it had already paid a deposit for the property to members (dissident ones, as it turned out) of the

same family.

The acquisition by Bupa, the UK health insurer, of Sanitas, Spain's largest private health group a year earlier, is still keeping lawyers busy as both sides argue about the real net worth of the company.

The middle that Benckiser found itself in is fairly typical, given the family share structure of most Spanish private businesses. "More than a corporate financier, you have to be a marriage counsellor," says a London merchant banker with a long experience of dealing with feuding relatives during Spanish acquisitions.

Bupa's problems made the news only because of the huge disparity of the sums involved. There are countless tales around of foreigners being ripped off, paying 15 times earnings for companies whose real profits were a third of what had been stated.

The first "do" that a potential buyer of a Spanish company has to keep very much in mind is to call upon the skills of a regiment of accountants to go through the books. Mr Fernando Pombo, senior partner of Gomez-Acebo y Pombo, one of Madrid's leading law firms, stresses that, over and above everything else, the potential buyer must insist on proper, in-depth due diligence.

This goes a lot further than a tough accounting audit. There should also be a thorough legal audit, which goes through property deeds, employment agreements, supplier contracts

and the rest with a fine tooth-comb. In the hotel cocktail bars, where confused business people swap "I was robbed" stories into the small hours, dark stories are told of real estate that was never in the company's name, of idle executives with platinum parachutes, and of suppliers that have the morality of a high-wire act and a contract that runs for 20 years.

Due diligence does not by any means end there. Mr Pombo warns that an environmental audit may be a more-than-wise move, and that product liability is an issue that should be thoughtfully examined. Authorities may have turned a blind eye to a Spanish company's habitual dumping of waste, and to its filthy clouds of poisonous fumes. Once under foreign ownership, however, officialdom might well insist that the same company adhere to rigorous standards that were once systematically flouted.

The second broad "do" has to do with attitudes, and is consequently less measurable. Foreign buyers might be better equipped to face hispanic business deals if they took a crash course in coping with different cultural standards.

Some way down along the discussion line, the foreigner will come across an approach to negotiations ("a souk-like approach," say the veterans at the game) that will draw on his reserves of patience. It is not just procrastination. The buyer

will have to grapple with a business culture where profit for profit's sake might not necessarily be the goal.

This leads directly to the "don'ts". What the potential foreign buyer in Spain should never do is rely on his own systems and on his experiences in other environments that may, superficially, resemble that of Spain. "Don't rely on verbal agreements," Mr Pombo warns. "Insist on agreements in writing and on proper contracts."

The other main "don't" may be something that the potential buyer is likely unwittingly to ignore, and by doing so could jeopardise the deal. No buyer should ever underestimate the tax implications of the purchase agreement for the vendors. The buyer might like to imagine the vendors laughing all the way to the bank, but in fact they are more likely to be worrying about fiscal authorities seeking around 53 per cent of their capital gains.

Mr Pombo came face to face with this problem when he helped Guinness to acquire the Seville-based Cruzcampo brewery, which has more than a quarter of Spain's fast-growing beer market. The first problem was to identify the 170 members of the closely-knit, landowning aristocracy of Andalusia who owned the company. The second, and more complex one, entailed guiding them through the tax liabilities they faced as a result of the UK group's £533m acquisition.

The foreign buyer will come across less sophisticated and less experience than he may have bargained for. But the buyer will also come across a very positive attitude towards selling on the part of the vendors. With the sort of money that is changing hands, this is not altogether surprising.

Tom Burns

The new accounting regulations offer...

A credible exit from the neolithic age

A REVOLUTION is taking place in the hitherto arcane world of Spanish financial reporting. For many Iberian finance directors, the effect will be akin to marching out under arc-lamps after a very long spell in a very dark dungeon.

"The whole process of going from virtually nil disclosure requirement to what is a fairly complete set of accounts is causing a tremendous amount of heart-searching among companies," says the Madrid-based partner of one of the Big Six international accounting firms.

Spain's 1990 entry into the European Community committed it to implementing the EC's company law directives. The Gonzalez government has opted to attempt to do this

Commencing with the year beginning January 1, 1990, there is a statutory audit for medium-sized and large companies.

■ Commencing with the year beginning January 1, 1991, the general chart of accounts must be applied.

According to Madrid-based accountancy firm partners, the new-style and newly available accounts should be reasonably accessible to non-Spanish readers, although there are likely to be some problems of interpretation. These could arise sometimes from unfamiliar presentation and/or conventions, and sometimes from transitional measures. Potential stumbling blocks include the following:

■ Profit and loss account: Spanish companies will classify expenses by their nature, rather than by the reason for which they were incurred, as is UK practice. Balance-sheets will be presented in the horizontal east-west format, rather than vertically.

Notes: In the words of one observer, the notes to the accounts of Spanish companies will be "almost as voluminous as those to British companies". There is currently no Spanish information requirement on directors' shareholdings or political donations, however. In addition, directors' remuneration need only be disclosed in total, and there is no obligation to disclose the value of land and buildings where it differs significantly from the value in financial statements.

Leasing: The capital cost will be included as an intangible, not a fixed asset, because, it is argued, the lessee does not become the registered owner of the item until payments have been completed.

Pension liabilities: There will be a transition phase for the translation of accrued pension liabilities. According to Mr Juan Auguste, a Coopers & Lybrand partner: "It will be 15 years before we are up to full accrual basis for all pension liabilities." He adds: "The transition provisions are very obscure; nobody really knows exactly how the accounts for 1990 should be prepared."

One of the government's reasons for pushing the rules through so quickly was fiscal: tax evasion under the old regime was endemic.

interpretations. "We will continue to do what we did before," says Mr Augusto San Segundo, a partner with Price Waterhouse. "What we will not do is tell the fiscal authorities of any irregularity, however little. We are not civil servants."

In sum, it still remains unclear quite how smoothly these far-reaching reforms will click into action. But if they succeed in imbuing Spanish published financial information with greater credibility, they will be performing an immense service on various counts:

■ Credit rating agencies should at last be able to get properly down to business.

■ Potential buyers and trade partners of Spanish companies should be taking less of a plunge in the dark.

■ The reforms may even help the stock exchange to become a more useful vehicle for raising new finance.

David Owen

RESULTS OF SPAIN'S FOREMOST BANK



THE CHAIRMAN, EMILIO YBARRA, IN HIS SPEECH TO THE GENERAL ASSEMBLY OF SHAREHOLDERS, DECLARED:

"We are creating a strong Bank. Without risky experiments."

"We believe that a future-minded and earnest management policy must guarantee the shareholders profit-ability and the consolidation of the wealth of the institution. That is our road we are on."

"The key to our current policy lies in providing the Bank with the capacity for flexible and agile response which will allow it to react effectively to those challenges posed each day by an extraordinarily dynamic marketplace."

"Today, we have 8 million clients; two thousand eight hundred offices; we are the Bank of 84% of the most important companies in Spain. This is our strength. This is our capacity for response in order to make of the BBV the international group par excellence in Spain and the Spanish financial group par excellence on the international market."

CAPACITY FOR RESPONSE

IN 1990, the BBV has been able to increase its market share with a 12.9% growth in resources.

- In little over 8 months, the "Libertad" product account has obtained more than one million clients and the "Cuenta Plus" high interest current account adds up to more than 500,000 million pesetas. Consumer credits have risen above 455,000 million.
- The BBV is also leader in payment systems. With over three million credit cards and charge cards.
- More than 90% of the big companies in Spain are clients of the BBV which is also responsible for handling 17% of the country's import and export operations, more than 1 billion pesetas in total.

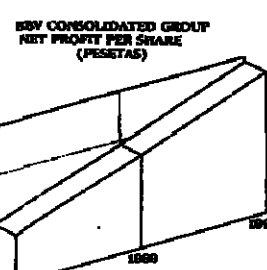
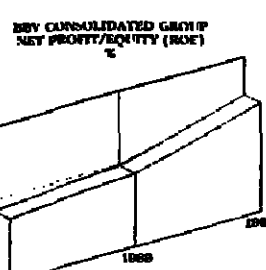
- The BBV is a diversified financial organisation. Its industrial group, comprising over 180 companies, is represented in the most dynamic sectors of our economy. It also holds a privileged position in the insurance markets, in pension funds, capital and monetary funds and in Stock Market portfolio funds.
- The BBV, world leader in the peseta market, participates in foreign exchange business valued at more than 220 billion pesetas.
- Having opened on the Zurich and Tokyo markets, the BBV shares are present in the world's most important Stock Markets.
- With four hundred thousand shareholders, more than 8 million customers, 30,000 employees and 2,800 offices, the BBV is first among Spanish financial groups.

SOLVENCY, PRUDENCE AND PROFITABILITY

THE BBV is the bank with the greatest capitalisation in the Spanish financial system, with over 570,000 million pesetas. This base capital gives the BBV over 10 billion pesetas potential capacity for total asset growth.

With 21.5% net profitability in equity, the pre-tax profits of the BBV - after assigning more than 115,000 million to reserves and amortizations - are the largest of the Spanish Banks, over 141,000 million pesetas.

The net profit per share has increased 10.3% over the financial year. The amount distributed as dividend to shareholders - after assigning 65,000 million to reserves - is greater than that of any financial body in the country: 36,500 million pesetas.



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FG Inversiones Bursátiles, S.A., a leading independent Spanish stockbroker, arranged an investment seminar in Madrid in April 1991 for an invited gathering of international institutional investors. As part of the

programme there were presentations from the following Spanish companies:



1

ASLAND

One of the ten most traded shares on the Spanish Stock Exchange. Cement and ready-mix concrete are its main products, manufactured all over Spain, where Asland is the market leader, and Portugal. With international investments in Europe and America, the Spanish Group ASLAND is integrated into Lafarge Coppée, the world's leading group in the field of construction materials. With total assets of U.S. \$1,218 million, the ASLAND Group in 1990 made a net profit of U.S. \$117 million, an increase of 17% over the previous year. Sales were U.S. \$600 million. ASLAND is capitalized at U.S. \$1,300 million.



2

BANCO HISPANO AMERICANO

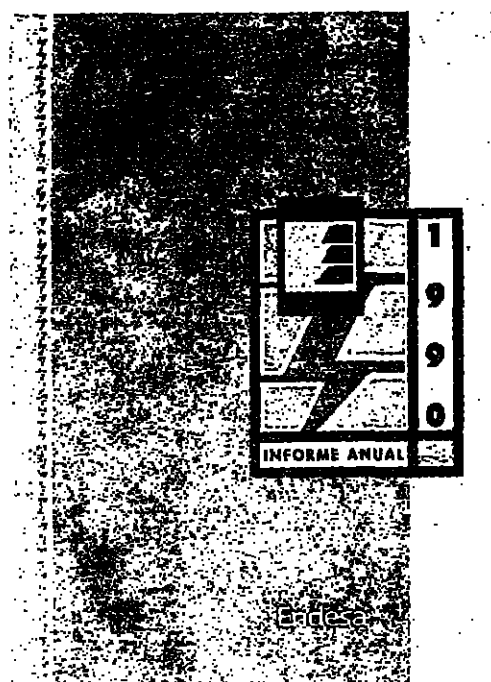
Banco Hispano Americano is the parent bank of the largest diversified financial group in Spain. Established in 1900, it is the only Spanish financial institution with a full-service English bank in London. Capital: Ptas. 45,697 million. Reserves: Ptas. 145,597 million. 1990 net profit: Ptas. 30,958 million. Number of branches: 1,462. Number of employees: 14,399.



3

CUBIERTAS Y MZOV S.A.

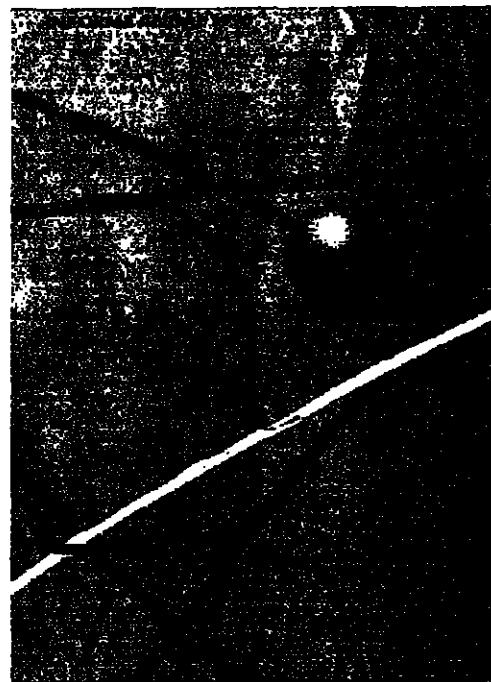
1991 sees the 75th birthday of CUBIERTAS Y MZOV S.A., a company that has consolidated its position as the second-largest construction firm in Spain. The company has entered both national and international markets, in public as well as private works. Its philosophy has been based on service to the client and specialisation in large-scale projects. Its advanced level of technology permits it to work in all areas of construction, both in Civil Engineering—bridges, tunnels, railways, maritime projects, hydraulics and roads—and in Building—industrial, urban and residential. CUBIERTAS is also involved, through its subsidiaries, in special cement, landscape gardening, car parts, property, engineering and projects, urban cleaning and waste disposal etc.



4

GRUPO ENDESA

Endesa a State-owned holding company, is the leading producer of electricity in Spain. The Group is made up of seven companies, headed by ENDESA, Empresa Nacional de Electricidad S.A. Installed capacity represents 25% of the national total, and includes conventional thermal-generating, nuclear and hydroelectric plants. The electricity generated represents 35% of the national total.



5

CORPORACION MAPFRE

CORPORACION MAPFRE is the central holding company of one of Spain's largest insurance and financial groups. Its subsidiaries are grouped into six Operating Units: Life Insurance, General Insurance, Banking and Financial Services, Direct International Insurance, Reinsurance and Real Estate Development. It is a subsidiary of MAPFRE MUTUALIDAD DE SEGUROS. Overall MAPFRE has over 1,600 offices in Spain, and operational investments in 15 countries, with estimated consolidated revenues in 1991 of Ptas. 300 BN.



6

PORTLAND VALDERRIVAS S.A.

Founded in 1923, Portland Valderrivas started its industrial activity with an annual production capacity of 50,000 tonnes of Portland cement. By 1972 the company had already achieved an annual production of 2 m. tonnes. In 1991 its new works at El Alto are alone capable of producing 2.8 m. tonnes. In 1985 Valderrivas acquired 70% (later increased to 80%) of the Picasso Tower project in Madrid. Promotion of the building started in December 1988 and ended in March 1990 with full occupancy of the building—which has 43 floors, over 78,000 sq. m. of office and shop space and 726 parking places.



7

VALLEHERMOSOS S.A.

Founded in 1951, Vallehermoso is a mixed property and development company quoted on the Spanish Stock Exchange. Since the company's creation the average annual growth in its assets has been 25% compound. In 1989 Vallehermoso took over Corporación Inmobiliaria Hispamer S.A. and Inmobianif S.A., becoming thereby the largest company in its sector. The consolidated profit in 1990 reached Ptas. 6,305 million, a 44% increase on 1989.

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INSIDE

Courtaulds advances by 11% to £186m



Courtaulds, the international specialist materials group, yesterday reported pre-tax profits 11 per cent higher at £186m (£221m) for the year ended 31 March. Sir Christopher Hogg (centre), chairman, said the increase in profits has been achieved against a background of deteriorating economic conditions. Sir Christopher, flanked by his finance director Richard Laphorne (left) and managing director Sipko Hulsmans, asserted: "We have a firm business for the future." Page 23

More grief at Australian banks

The Australian ANZ banking group has become the worst performer of the country's three listed banks following the release of interim figures yesterday. Pre-tax profits fell 50 per cent, the group revealed. The bank also saw its charges for bad debts more than double in the six months. Mark Westfield reports. Page 18

Peru sews up its cotton

Peru is struggling to shake up its cotton industry - once the country's principal export - by liberalising trade measures and lifting export restrictions. However, production of Tanguis, an internationally coveted variety which until now has been virtually unavailable outside Peru, has been hit by a combination of drought, scarcity of credit and increased terrorist attacks. Sally Bowen reports. Page 28

Sabena confirms talks with BA and Air France

British Airways, and Sabena are in advanced talks over a new partnership which would see BA invest in a large direct stake in the financially troubled Belgian airline. Sabena confirmed yesterday that the airline was in advanced partnership negotiations with both BA and Air France, the French national flag carrier, but that talks with BA were the most advanced. Sir Colin Marshall (above), BA chief executive, also confirmed this week that the two companies were continuing discussions over a new partnership following the collapse last January of the tripartite venture between Sabena, BA and KLM Royal Dutch Airlines. Page 23

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End result for Japanese groups
The Japanese reporting season continues with year-end results from leading drugmaker Yamanouchi Pharmaceutical, Komatsu, the construction equipment manufacturer, Hiroshima Bank, synthetic fibre-maker Toray, and Oji Paper. All but Oji enjoyed a rise in profits on the previous year. Page 18

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LONDON (Pence)

Ricco	419	-	14
Amstar	34	+	3
Amstar	35	+	3
Black & Leisner	87	+	4
Cityvision	39	+	3
Hearst	102	+	3
Sanderson M.E.	430	+	10
Smith (WH) A	322	+	14
West (A)	134	+	9
Pella	211	-	13
Berry Whitaker	509	-	12
Cable & Wire	509	-	12

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Renault and Volvo post poor results

By Kevin Done, Motor Industry Correspondent

VOLVO, the Swedish automotive group, yesterday reported continuing operating losses for the first three months of the year, while Renault of France, its strategic partner, announced severely depressed profits.

The grand alliance announced a year ago between the two companies, one of the most ambitious and complex restructuring operations under way in the European auto industry, is taking shape at a time when the financial fortunes of both companies are being forced to a low ebb.

Yesterday's announcement of quarterly results was the first attempt by the Franco-Swedish partners to co-ordinate their financial reporting. The depressing figures highlight the scale of the task facing Mr Peter Gyllenhammar, Volvo chairman, and Mr Raymond Levy, Renault chairman and chief executive, the architects of the alliance.

Both companies have accepted that the fruits of the partnership will come only in the medium to long term, but in the short term both are having to take stern measures in order to bolster the creaking financial performance of their car and truck operations.

The substantial minority cross shareholdings now cemented between Volvo and Renault mean that the two groups are having a mutually negative impact on each other's financial results.

In the western European car market (including eastern Germany), where sales remained virtually unchanged in the first four months of the year, Renault suf-

fered a 4.5 per cent fall in sales volumes with its market share declining to 8.9 per cent from 10.4 per cent a year ago.

In particular Renault has been exposed to the sharp fall in new car sales in France itself in the first four months, where new car registrations fell by an estimated 16.1 per cent. This has been compensated in part, however, by a strong performance in Germany (including eastern Germany), the only European market still showing dynamic growth in new car demand.

On the commercial vehicles front Renault is still suffering continuing heavy losses from its Mack truck operations in the US.

Volvo's car operations were still operating at a loss in the first quarter, as it battled with the impact of the plunge in sales in its three biggest markets, the US, the UK and Sweden, as well as in neighbouring Finland.

Volvo is being forced to take drastic actions to improve the industrial efficiency of its operations. It said yesterday it was aiming to have reduced its annual cost levels by SKr3bn (£487m) by the end of 1991, and by SKr5bn by the end of 1992 when the programme was fully implemented.

The immediate need for such fire-fighting operations by both companies underlines the need to attain the considerable long-term cost savings they claim to have identified in their grand alliance. Yesterday's financial results add new urgency to the quest. Details, Page 16



Renault's Raymond Levy: depressing figures for one of the architects of the alliance with Sweden's Volvo's

UK rent slump hits top property group

By Vanessa Houlder, Property Correspondent, in London

LAND SECURITIES, the UK's largest property company, yesterday announced a 25.5 per cent fall in its net assets per share to 67p in the year to March 31, a decline that exceeded the City of London's worst forecasts.

However, the company's strong income flow led to a rise in pre-tax profits of 22.9 per cent to £215.2m (£272m).

Land Securities is the undisputed bellwether of the UK property industry, accounting for a quarter of the value of the quoted sector. So the greater-than-expected drop in asset value represented more bad news for a sector already reeling from blows dealt over the past year.

Investors also found little comfort in Mr Peter Hunt's statement: "It is not yet clear how long the current problems will continue to affect the industry or when growth will resume."

"Excessive bank lending on property has to be reduced and the oversupply of accommodation, particularly in the City of London, absorbed; this will take time," he warned.

This verdict is shared by most analysts, who forecast another sharp fall in values this year.

Recession and oversupply are hitting the property market in two ways. So far, the decline in value has been largely due to a rise in property yields, as investors

demand higher returns to compensate for the oversupply and poor rental prospects of property. Land Securities yields have jumped by 2.4 per cent to 8.4 per cent over the year.

Yields may now be stabilising - as they find support from the level of gilt yields - but falling rents are taking their toll on asset values.

The oversupply of space and recession knocked an estimated 6.6 per cent off office rents last year, and will cut a further 15 per cent in the year to January 1992, according to the chartered surveyor, Richard Ellis. Overall, rents are forecast to fall 8 per cent over the period.

Mr Colin Barber of Richard Ellis says capital values for the market as a whole have already fallen by 5 per cent since January (due, in part, to a steep rise in yields during March and April). He says they have a further 8 per cent to fall in the next eight months.

These Richard Ellis forecasts created a stir when they were released to analysts a few weeks ago, prompting a cut in forecasts of Land Securities' assets to between 675p and 725p.

In the end, the results were worse than even the worst predictions, resulting in a fall in Land Securities' shares yesterday of 9p to 521p. Several other

shares with large city portfolios also lost ground.

These declines are unsettling for a sector that is already at a 22-year low relative to the stock market. However, it is not clear that the valuations of other companies with March year-ends will fall as far as Land Securities. Analysts draw comfort from Land Securities' oddly robust performance a year ago, when its assets actually rose in value.

If Land Securities' worse-than-expected performance was partly due to last year's over-optimistic valuation, then other results in the coming weeks may be better than feared. Lex, Page 14

Electrolux profits fall amid lower US and UK demand

By Robert Taylor in Stockholm

ELECTROLUX, the world's largest white goods manufacturer, suffered a 15 per cent decline in its profits (after financial items) for the first quarter of the year, with the result falling to SKr414m (£67.6m) compared with SKr511m for the same period of 1990.

Sales dropped 6 per cent to SKr12.2bn from SKr12.8bn for the first three months of last year. The company's operating income declined 12 per cent after depreciation to SKr798m from SKr908m.

Electrolux also announced a fall in earnings per share to SKr0.60 compared with SKr0.50 for the first quarter of 1990.

The company attributed the decline in its profits performance on falling demand in the all-important US and UK core business consumer markets for household

appliances and outdoor products. Electrolux has also experienced signs of a downturn in its southern European consumer goods markets, particularly in France.

It added that the effects of its restructuring programme begun in the second half of last year were gradually becoming evident, and contributed to the growth of income as well as market share achieved in Europe.

Electrolux said that, while profits continued to decline in its North American white goods operation compared with the first quarter of 1990, the latest figures were an improvement over last year's fourth-quarter performance.

Sales of household appliances fell to almost SKr10.7bn in the first quarter from around

SKr11.3bn for the same period of 1990.

The company's sales in commercial appliances rose to more than SKr2bn from SKr1.9bn but dropped to SKr2.5bn from SKr2.8bn in outdoor products.

The company's components product line and aluminium manufacture in its industrial products division suffered a profit decline in the fourth quarter with a fall in sales to SKr3.5bn from SKr4.2bn.

Commercial appliances maintained operating margins and profitability as a result of a good performance in the food-service equipment sector.

Low income was reported for industrial laundry equipment with a drop in sales to the US. As a result, there was a sharp fall to SKr404m from almost SKr1.1bn.

ICI move pressures UK government

By Our Industrial Staff in London

SENIOR UK ministers are also believed to have been concerned that a bid by Hanson for Imperial Chemical Industries would hurt the government in the run-up to the general election.

They fear a bid for ICI by the acquisitive British industrial conglomerate would become one of the most highly charged UK industrial policy issues of recent years and put the government in an almost impossible position.

Meanwhile, it has emerged that the chairman of Hanson and ICI, Lord Hanson and Sir Denys Henderson, met for two hours on Tuesday in the first meeting between the camps since Hanson bought its 2.8 per cent stake in the chemicals group last week.

A terse ICI statement said that no further meetings were planned. Lord White, head of Hanson's US businesses, and Mr Colin Short, ICI's finance direc-

tor, are also believed to have been present.

Ministers are publicly committed to not intervening as the situation develops, arguing that any decision on a bid should be left to ICI's shareholders and the European Commission competition authorities. It is widely expected that the EC would take precedence over UK authorities in vetting a bid.

Yet ministers believe they would face a political campaign of mounting ferocity to intervene to prevent one of the country's largest industrial groups from being broken up. They fear the government would look impotent in the face of such a campaign, which would highlight Hanson's long-standing financial support for the Conservative Party.

One cabinet minister said: "Just with Hanson taking 2.8 per cent, this has been bad news for

the government, because it raises the spectre in people's minds of asset stripping and capitalism run riot."

Although ministers doubt whether the UK could claim authority over the bid, Department of Trade and Industry officials are examining whether there would any grounds on which the Office of Fair Trading and the Monopolies and Mergers Commission could review it. It is unlikely the MMC could vet the bid on national interest grounds, as these are narrowly proscribed under the EC's rules to strategic industries such as defence, or on the grounds that a takeover would create a monopoly in the UK market.

According to ICI, Hanson reiterated on Tuesday that its purchase of shares had been for investment purposes "but that all its options remained open".

KLM falls into red with loss of F1630m

By Ronald van de Krol in Amsterdam

KLM Royal Dutch Airlines yesterday unveiled a provisional net loss of F1630m (\$325m) for the year ended March 31, a sharp reversal from the previous year's net profit of F1540m.

The loss was slightly below the Dutch airline's earlier forecast of a deficit of F1650m, and KLM's shares rose by 5 per cent on the Amsterdam stock exchange to close up F1.30 at F127.10.

Almost half of the 1990/91 loss - or F1300m - was due to a provision taken to help restructure the carrier, reduce its annual operation costs and pursue its workforce.

Excluding these and other extraordinary items, KLM's net results on ordinary business activities showed a loss of F1353m compared with a profit of F1186m in 1989/90, in line with the company's February predictions.

The airline, which is 38.2 per cent owned by the Dutch government, will give details of its dividend on June 13, when it is due to publish definitive figures for last year. KLM paid an unchanged dividend of F1.80 per share on 1989/90 results.

Like several other European airlines, KLM has been struggling to contain costs against a backdrop of slower growth in world aviation. Because of its higher wage costs, KLM is particularly vulnerable to competition from Asian carriers.

KLM's problems were apparent even before the outbreak of the Gulf war and the resulting downturn in international air travel. However, the war forced Mr Pieter Bouw, KLM's president since January, to accelerate and intensify the company's cost-cutting drive, which was first launched in October 1990.

The airline has been hurt by a weak dollar because many of its costs are incurred in guilders, one of Europe's strongest currencies. KLM's results have also been affected by losses at Northwest Airlines of the US, in which it owns a minority stake.

By cutting more than 1,000 staff jobs and devolving non-core activities - representing a further 2,000 jobs - to external contractors, KLM hopes to achieve a 7 per cent improvement in productivity in each of the next three years. Other cost-cutting measures include delays in the delivery of new aircraft.

The airline indicated that it could improve its operating margin to 5 per cent of turnover by the end of 1993/94, following the implementation of these changes.



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INTERNATIONAL COMPANIES AND FINANCE

Poor sales hold Volvo to SKr340m

By Robert Taylor in Stockholm

VOLVO, the Swedish vehicle group and largest company in Scandinavia, yesterday reported a sharp decline in profit after financial items for the first quarter of the year. The profit slid to SKr340m (\$53.4m) from SKr1.05bn during the same period of 1990.

However, the result is an improvement on the SKr134m group loss after financial items in the fourth quarter last year.

Volvo made a SKr397m operating loss in the first three months of the year, compared with a SKr625m operating profit for the same period of 1990. The decline reflects a downturn in sales. The group said yesterday it was an "unsatisfactory" result.

Return on capital over the most recent 12-month period was 3.8 per cent, compared with 12.1 per cent for the preceding 12 months. Income per

share was SKr4.4 in the first quarter, up on the SKr4.2 per share last time.

Continuing low sales volumes, depressed margins, and the high cost of under-utilised production capacity were blamed for the poor results.

There was a 10 per cent decline in group sales in the first quarter, to SKr17.46bn from SKr21.68bn for the same period of 1990, with a 17 per cent drop in car sales to SKr6.77bn from SKr10.59bn. The number of Volvo cars delivered to customers totalled 83,500, compared with 104,100 for the same period of 1990. Demand for Volvo cars fell in all the group's main markets, except Germany.

The truck division also suffered a net drop in sales to SKr4.9bn from SKr5.68bn, despite strong demand in the Middle East and Germany. Bus

sales fell - by 5 per cent to SKr85m from SKr89m - and there was a decline in sales for marine and industrial engines to SKr69m from SKr703m.

Volvo estimates that cost savings at a rate equivalent to around SKr500m a year were achieved in the first quarter. However, the group admitted that savings so far in its rationalisation programme had been "quite limited".

Volvo hopes to have reduced its costs by just over SKr3bn before the end of this year, with a saving of a further SKr2bn in 1992 through increased efficiencies.

The group's net debt rose sharply in the first quarter, from SKr10.7bn on December 31 1990 to SKr16.8bn on March 31 this year. This was due to a SKr6.45 payment to its new strategic ally, Renault, partly offset by a SKr1.9bn sale of

assets. At the end of the first quarter, Volvo withdrew SKr1.5bn from restricted deposits in the central bank.

Liquid funds in the group fell by SKr1.78bn to SKr15.8bn over the first three months of the year, and the book value of shares and participations rose by SKr10.1bn to SKr31.7bn, mainly as a result of the acquisition of shareholdings in Renault. Mr Christer Zetterberg, Volvo's president and chief executive officer, said the company aimed to reduce debt by selling unspecified assets.

Holdings in associated companies contributed SKr34m to earnings in the first quarter, compared with SKr250m last time. Volvo's share of operating income in Procordia, the food and pharmaceutical group, was SKr194m, while Renault accounted for SKr8m. More Swedish results, Page 27

Swiss lift the veil on directors' salaries

By William Dullforce in Zurich

ANOTHER CRACK has appeared in the crumbling dyke of Swiss corporate secrecy. The annual report of Walter Meier Holding (WMH), to be published today, will disclose the remuneration paid to its board of directors and senior management.

No other listed Swiss company has revealed these costs. The few which have started to comply with the European Community's directives on corporate financial statements have omitted payments to the board.

Nestlé, the biggest Swiss company, has refused to give information on directors' salaries. However, like other Swiss companies, it lists a global allocation from profits to non-executive members of the board.

In an earlier revolt this month against Swiss corporate practices, foreign and Swiss pension funds joined forces to persuade Holzstoff, a diversified Swiss paper manufacturer, to withdraw proposals that would have restricted the number of shares and voting rights one investor could hold.

Now, WMH, a medium-sized industrial conglomerate with a 1990 turnover of SF5632m (\$460.5m), is disclosing payment of SF1.6m to its six directors and SF900,000 to the four members of its executive board.

Interest-bearing loans to members of the board totalled SF800,000 at the end of 1990, while loans to senior executives amounted to SF1m.

Mr Werner Staub, chief financial officer, said WMH had decided that corporate transparency was basic to winning the confidence of investors.

WMH, still controlled by the founding Meier family, runs 40 subsidiary companies.

Since it went public in 1985, net earnings per share have climbed from SF134 to SF249 last year. The dividend has risen by SF5 per share each year.

For 1990, a difficult year, WMH is posting a 10 per cent increase to SF177.8m in consolidated net earnings.

Land Securities earnings improve but assets slide

By Vanessa Houlder, Property Correspondent

LAND SECURITIES, the UK's biggest property company, yesterday announced a 22.5 per cent fall in its net assets per share to 67p over the year to March 31, a decline that exceeded the most pessimistic forecasts.

The effects of recession and oversupply pushed the underlying value of Land Securities' portfolio down by 19.2 per cent to £4.7bn (\$8.1bn), according to Knight Frank & Rutley, the group's valuers.

However, the company's strong income flow led to a rise in pre-tax profits of 22.9 per cent to £215.2m from £175.2m. The dividend was increased by 16.2 per cent, from 17p to 19.75p with a final payment of 14.25p. Earnings per share rose by 25 per cent to 30.85p from 24.64p.

In a cautious statement, Mr

Peter Hunt, chairman and managing director, said the year ahead would be primarily one of consolidation.

He said the portfolio still had reversionary potential (to increase its rental income after rent reviews) although to a much reduced extent than last year.

"At current values some additional income should therefore flow from reviews and renewals over the next two years or so," he said.

The company said it would be prepared to see a fall in its dividend cover to allow further increases in the dividend per share, although it would not necessarily continue at the current rate.

The worst-hit part of the portfolio was City of London offices, the value of which fell

by 27.5 per cent. Properties in the West End and Victoria fell by 16.6 per cent, shops and offices elsewhere in the UK fell by 15.4 per cent, out of town retail fell by 20.6 per cent and industrial and warehouse property by 11.1 per cent.

Land Securities said that 79 per cent of the income from its development programme was secured by lettings. Excluding its development programme, voids represented less than 2 per cent of its annual rent roll.

"However, both voids and irrecoverable outgoings will increase in the current financial year," warned Mr Hunt.

Analysts forecast a further fall in assets this year as a result of the decline in rents. The decline in assets led to a rise in gearing to 32.9 per cent. Lex, Page 14

Renault profit margins squeezed further

By William Dawkins in Paris

RENAULT, the French state-owned car group, saw profit margins dwindle further in the first quarter of 1991, hit by the continued drop in demand and losses from Volvo, the Swedish car group in which it has a minority stake.

Renault made a FF1298m (\$51.29m) pre-tax profit in the first three months of 1991 on sales of FF40bn, down 8 per cent on the turnover in the same period last year. Its taxable profit margin was 0.74 per cent for the first quarter, well down on the 1.05 per cent

achieved for the whole of last year. This suggests the 87 per cent net profit decline for the whole of last year steepened in the first three months of 1991.

The squeeze on Renault's margins reflects the continuing decline in the French car market in the first quarter, when registrations overall dropped 20.6 per cent compared with the first three months of 1990, according to the CCFP French car industry association.

However, there was a slight recovery in car sales last month, according to the latest

industry survey by Insee, the state statistics body.

Renault gave no comparative quarterly profits figures since this is the first time it has published three-monthly results. The company reformed its reporting policy in line with the disclosure practices of Volvo, the Swedish car maker, with which it completed a share exchange in January.

Volvo contributed a FF31m loss to the pre-tax result of Renault, representing the deficit attributable to the French carmaker's 25 per cent stake in

Volvo Car, its 45 per cent in Volvo Truck, and its 5.5 per cent in AB Volvo, the Swedish partner's parent group.

Renault reported a FF547m operating profit for the first quarter, representing 1.37 per cent of turnover, down from a 3.85 per cent operating margin achieved during the whole of 1990.

Car sales accounted for nearly 81 per cent of turnover, slightly up on last year, while the truck division represented 16 per cent of turnover, down from 17.7 per cent last year.

Ifil net increases to L114.4bn

IFIL, one of the main holding companies of Italy's Agnelli family, raised net group profits by 38.5 per cent to L114.4bn (\$60m) last year from L82.6bn in 1989, writes Haig Simonian in Milan.

Net earnings at parent company level increased by almost 16 per cent to L85.2bn from L82.1bn in 1989.

The dividend remains unchanged at L120 and L140 for ordinary and savings shares respectively.

Among the group's investments are stakes in BSN, the French Foods concern and Galbani, the Italian foods group.

WH Smith to focus on core units

By John Thornhill in London

WH SMITH, the UK retailing group, yesterday announced a refocusing of its businesses involving the proposed sale of its television and most of its travel interests, and the expansion of its core high street activities in newspaper, record, video and book retailing.

The announcement was accompanied by a £147.5m (\$255.7m) rights issue and a forecast that pre-tax profits in the year to June 1 would advance by 3 per cent to £88.5m. The company said its yearly dividend would rise by 8.7 per cent.

The proceeds of the rights issue - the first in WH Smith's near 200-year history - will help fund the company's £300m investment programme over the next three years. This represents a marked acceleration in capital expenditure, which was previously running at £50m a year.

The company intends to expand its Our Price record retailing business in the UK and US, and is opening up to 100 Our Price video shops in the UK over the next three years. It also plans to expand Waterstone's, its book chain, in

the UK, and will open two stores in the US this autumn.

It is estimated that WH Smith will receive about \$65m for the sale of WHSTV, its television programme supplier, set against its net asset value of £59.3m as of June 1990.

The proposed buyer is a consortium of ESPN (owned by Capital Cities/ABC and Hearst), Canal+ and Compagnie Générale des Eaux. WH Smith said it was close to selling a large part of its travel operations to Carlson Travel Network of the US.

Details, Page 23; Lex, Page 14

Devenish to sell brewing side

By Philip Rawstone in London

DEVENISH, the west of England brewer, yesterday provoked a fresh burst of hostility in its battle against a takeover bid from Boddington, the hotels and pubs operator, by announcing that it is to quit brewing.

Mr Michael Cannon, Devenish chairman, said the company's beer brands and free trade business would be sold to Whitbread for £9.75m (\$16.8m).

Under a proposed seven-year agreement, Whitbread would supply Devenish's 370 pubs with a large range of beers - including the Boddington brand and Devenish's own Newquay Steam.

Separate talks were being held about the possible sale of Devenish's brewery in Redruth, Cornwall, which lost £1.7m last year. If the brewery is not sold, it will be closed.

The £5.5m costs of closure would be more than offset by a £5.9m gain from the sale of its wholesaling business last December.

The Whitbread deal brought an angry response from Boddington, which launched a £127m bid for Devenish last month.

"The Devenish board is determined to mortgage future profitability to prop up its last line of defence - its overstated asset value," said Mr Denis Cassidy, Boddington chairman.

Devenish had finally acknowledged the total failure of its brewing strategy on which millions of pounds had been wasted, said Mr Cassidy.

Mr Cassidy described the £5.9m gain from the sale of Devenish's wholesaling operations as "illusory". He

said it and would be written off if Boddington acquired the company.

Boddington intends to study the terms of the supply agreement - still subject to approval by Devenish shareholders - before deciding whether to proceed with its bid.

It has warned that if it considered any such deal detrimental to future profits, it would withdraw.

The Devenish deal is made more interesting by the fact that Whitbread Investment Company has a 15.3 per cent stake in the company as well as just under 22 per cent of Boddington.

The proceeds from the sale of its beer brands would enable the company to expand and develop its pub estate, Devenish said.

KSB cautious despite 33% advance

KSB, one of the world's leading pump manufacturers, raised group pre-tax profits by 33 per cent to DM33m (\$50m) last year. However, it does not expect to repeat this performance under the more difficult conditions of 1991, Mr Kilian von der Tann, chief executive,

said, writes Andrew Fisher. The company, which also makes valves and environmental equipment, benefited last year from the strong economies in Germany and neighbouring countries and the fact that cost rises were moderate. In the first quarter, turnover

rose by around 10 per cent. Last year, turnover rose at the same rate to DM1.7bn, with around DM22m expected for 1991. Mr von der Tann said KSB was feeling the effects of economic weakness, especially in France and other parts of western Europe.

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Notice is hereby given that, in accordance with the Terms and Conditions of the above-mentioned loan, Bonds for the principal amount of US\$ 20,000,000 have been drawn, in the presence of a Notary Public, on April 24, 1991 for redemption at par on June 30, 1991.

The following Bonds have been drawn and may be presented to Kredietbank S.A. Luxembourg or to any other Paying Agents named on the Bonds:

0000	0001	0002	0003	0004	0005	0006	0007	0008	0009	0010	0011	0012	0013	0014	0015	0016	0017	0018	0019	0020	0021	0022	0023	0024	0025	0026	0027	0028	0029	0030	0031	0032	0033	0034	0035	0036	0037	0038	0039	0040	0041	0042	0043	0044	0045	0046	0047	0048	0049	0050	0051	0052	0053	0054	0055	0056	0057	0058	0059	0060	0061	0062	0063	0064	0065	0066	0067	0068	0069	0070	0071	0072	0073	0074	0075	0076	0077	0078	0079	0080	0081	0082	0083	0084	0085	0086	0087	0088	0089	0090	0091	0092	0093	0094	0095	0096	0097	0098	0099	0100	0101	0102	0103	0104	0105	0106	0107	0108	0109	0110	0111	0112	0113	0114	0115	0116	0117	0118	0119	0120	0121	0122	0123	0124	0125	0126	0127	0128	0129	0130	0131	0132	0133	0134	0135	0136	0137	0138	0139	0140	0141	0142	0143	0144	0145	0146	0147	0148	0149	0150	0151	0152	0153	0154	0155	0156	0157	0158	0159	0160	0161	0162	0163	0164	0165	0166	0167	0168	0169	0170	0171	0172	0173	0174	0175	0176	0177	0178	0179	0180	0181	0182	0183	0184	0185	0186	0187	0188	0189	0190	0191	0192	0193	0194	0195	0196	0197	0198	0199	0200	0201	0202	0203	0204	0205	0206	0207	0208	0209	0210	0211	0212	0213	0214	0215	0216	0217	0218	0219	0220	0221	0222	0223	0224	0225	0226	0227	0228	0229	0230	0231	0232	0233	0234	0235	0236	0237	0238	0239	0240	0241	0242	0243	0244	0245	0246	0247	0248	0249	0250	0251	0252	0253	0254	0255	0256	0257	0258	0259	0260	0261	0262	0263	0264	0265	0266	0267	0268	0269	0270	0271	0272	0273	0274	0275	0276	0277	0278	0279	0280	0281	0282	0283	0284	0285	0286	0287	0288	0289	0290	0291	0292	0293	0294	0295	0296	0297	0298	0299	0300	0301	0302	0303	0304	0305	0306	0307	0308	0309	0310	0311	0312	0313	0314	0315	0316	0317	0318	0319	0320	0321	0322	0323	0324	0325	0326	0327	0328	0329	0330	0331	0332	0333	0334	0335	0336	0337	0338	0339	0340	0341	0342	0343	0344	0345	0346	0347	0348	0349	0350	0351	0352	0353	0354	0355	0356	0357	0358	0359	0360	0361	0362	0363	0364	0365	0366	0367	0368	0369	0370	0371	0372	0373	0374	0375	0376	0377	0378	0379	0380	0381	0382	0383	0384	0385	0386	0387	0388	0389	0390	0391	0392	0393	0394	0395	0396	0397	0398	0399	0400	0401	0402	0403	0404	0405	0406	0407	0408	0409	0410	0411	0412	0413	0414	0415	0416	0417	0418	0419	0420	0421	0422	0423	0424	0425	0426	0427	0428	0429	0430	0431	0432	0433	0434	0435	0436	0437	0438	0439	0440	0441	0442	0443	0444	0445	0446	0447	0448	0449	0450	0451	0452	0453	0454	0455	0456	0457	0458	0459	0460	0461	0462	0463	0464	0465	0466	0467	0468	0469	0470	0471	0472	0473	0474	0475	0476	0477	0478	0479	0480	0481	0482	0483	0484	0485	0486	0487	0488	0489	0490	0491	0492	0493	0494	0495	0496	0497	0498	0499	0500	0501	0502	0503	0504	0505	0506	0507	0508	0509	0510	0511	0512	0513	0514	0515	0516	0517	0518	0519	0520	0521	0522	0523	0524	0525	0526	0527	0528	0529	0530	0531	0532	0533	0534	0535	0536	0537	0538	0539	0540	0541	0542	0543	0544	0545	0546	0547	0548	0549	0550	0551	0552	0553	0554	0555	0556	0557	0558	0559	0560	0561	0562	0563	0564	0565	0566	0567	0568	0569	0570	0571	0572	0573	0574	0575	0576	0577	0578	0579	0580	0581	0582	0583	0584	0585	0586	0587	0588	0589	0590	0591	0592	0593	0594	0595	0596	0597	0598	0599	0600	0601	0602	0603	0604	0605	0606	0607	0608	0609	0610	0611	0612	0613	0614	0615	0616	0617	0618	0619	0620	0621	0622	0623	0624	0625	0626	0627	0628	0629	0630	0631	0632	0633	0634	0635	0636	0637	0638	0639	0640	0641	0642	0643	0644	0645	0646	0647	0648	0649	0650	0651	0652	0653	0654	0655	0656	0657	0658	0659	0660	0661	0662	0663	0664	0665	0666	0667	0668	0669	0670	0671	0672	0673	0674	0675	0676	0677	0678	0679	0680	0681	0682	0683	0684	0685	0686	0687	0688	0689	0690	0691	0692	0693	0694	0695	0696	0697	0698	0699	0700	0701	0702	0703	0704	0705	0706	0707	0708	0709	0710	0711	0712	0713	0714	0715	0716	0717	0718	0719	0720	0721	0722	0723	0724	0725	0726	0727	0728	0729	0730	0731	0732	0733	0734	0735	0736	0737	0738	0739	0740	0741	0742	0743	0744	0745	0746	0747	0748	0749	0750	0751	0752	0753	0754	0755	0756	0757	0758	0759	0760	0761	0762	0763	0764	0765	0766	0767	0768	0769	0770	0771	0772	0773	0774	0775	0776	0777	0778	0779	0780	0781	0782	0783	0784	0785	0786	0787	0788	0789	0790	0791	0792	0793	0794	0795	0796	0797	0798	0799	0800	0801	0802	0803	0804	0805	0806	0807	0808	0809	0810	0811	0812	0813	0814	0815	0816	0817	0818	0819	0820	0821	0822	0823	0824	0825	0826	0827	0828	0829	0830	0831	0832	0833	0834	0835	0836	0837	0838	0839	0840	0841	0842	0843	0844	0845	0846	0847	0848	0849	0850	0851	0852	0853	0854	0855	0856	0857	0858	0859	0860	0861	0862	0863	0864	0865	0866	0867	0868	0869	0870	0871	0872	0873	0874	0875	0876	0877	0878	0879	0880	0881	0882	0883	0884	0885	0886	0887	0888	0889	0890	0891	0892	0893	0894	0895	0896	0897	0898	0899	0900	0901	0902	0903	0904	0905	0906	0907	0908	0909	0910	0911	0912	0913	0914	0915	0916	0917	0918	0919	0920	0921	0922	0923	0924	0925	0926	0927	0928	0929	0930	0931	0932	0933	0934	0935	0936	0937	0938	0939	0940	0941	0942	0943	0944	0945	0946	0947	0948	0949	0950	0951	0952	0953	0954	0955	0956	0957	0958	0959	0960	0961	0962	0963	0964	0965	0966	0967	0968	0969	0970	0971	0972	0973	0974	0975	0976	0977	0978	0979	0980	0981	0982	0983	0984	0985	0986	0987	0988	0989	0990	0991	0992	0993	0994	0995	0996	0997	0998	0999	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INTERNATIONAL CAPITAL MARKETS

EIB provides further test for Euroyen sector

By Simon London

THE European Investment Bank maintained the recent supply of yen-denominated paper in the international bond market yesterday, launching a ¥50bn issue.

The 10-year deal, lead-managed by IBJ International, brings to ¥170bn the amount of Euroyen bonds launched since KFW, the German financial institution, re-opened the market for large international issues two weeks ago.

Bonds offered yesterday carry a 6% per cent coupon and were re-offered to investors at a fixed price of 99.45.

At this level the yield is 6.83, a pick up of 5 basis points over the yield on the ¥50bn World Bank issue launched by Nomura last week.

Participants in the deal commented that demand for longer-dated Euroyen bonds was growing among European institutional investors, raising the prospect of more sovereign or supranational issues.

The recent spate of Japanese borrowers issuing in sterling has created opportunities for swapping the proceeds of yen issues into the UK currency.

Yesterday's issue was partially swapped into floating-rate sterling.

The EIB also offered £600bn 10-year paper in a deal lead managed by Banca

INTERNATIONAL BONDS

Commerciale Italiana

The paper carries a coupon of 11.10 per cent and was re-offered at 99.56.

However, the bonds traded up to 100.90 bid when freed to trade, surprising even the lead manager.

The deal was supported by demand from Italian investors, which do not pay withholding tax on bonds issued by a number of supranational institutions, including the EIB.

The performance suggests that either the deal was priced too cheaply for the Italian market, or that overseas demand for quality lira assets at this maturity is still growing.

The Italian government launched its first fixed-rate 10-year bond in February.

The Eurodollar rate is also regaining confidence following several weeks of subdued activity.

Recent issuance has been dominated by borrowers offering higher-yielding assets at gradually longer maturities.

Yesterday Cassa Di Risparmio Delle Province

deal lead managed by Nomura International.

The 8% per cent paper was re-offered at a fixed price of 99%, where the yield spread over US government securities is 70 basis points.

This offers a small pick-up over recent comparable deals now in the secondary market.

For example, Credit Lyonnais' \$300m seven-year deal was launched at a yield spread of 74 basis points last week but has now tightened in to around 62 basis points.

Elsewhere, the anticipated upturn in issuance of convertible bonds by European companies began with a £120m deal from Walters

Kluwer, the Dutch publishing house, lead managed by Bank Meeus & Hope.

Late in the day, Beghin-Say, the French sugar and food oil group, launched a FF2bn convertible deal lead managed by Credit Lyonnais - of which FF455m will be placed internationally.

The company also announced a one-for-five rights issue yesterday, and the bonds offer conversion into Beghin-Say shares at a 12 per cent premium to the ex-rights share price.

The bonds carry a 7% per cent coupon but unconverted bonds will be redeemed at 110 per cent of face value in 1999, giving a yield of 8.27 per cent.

Securities role urged for Japan's banks

By Emiko Terazono in Tokyo

THE Japanese banking industry has produced a report for the Ministry of Finance stressing the importance of banks' entry into securities activities as part of the liberalisation of the Japanese financial system.

The report, prepared by the committee of the Financial System Research Council, an advisory panel to the Ministry of Finance, echoes the industry's arguments that banks be allowed to enter the securities industry through subsidiaries.

Ministry officials are at the final stages of the assessment on the ongoing financial reforms, and the draft is the last of the reports prepared by the committee, which represents the interests of the banking industry.

A report backed by Japan's securities houses recently reaffirmed the industry's opposition to banks entering stock broking, the most lucrative part of the securities business.

The Financial System Research Council's report proposes that although banks should be restricted from broking at the initial stages of deregulation, specific subsidiaries should eventually be allowed to enter businesses previously reserved for securities houses.

The report's recommendations that "firewalls" between the securities and banking business within the same institution should be kept at a minimum is also likely to trigger controversy.

The report is also likely to trigger renewed debate over the prolonged reform of Article 65 of the Securities and Exchange Law - Japan's version of the Glass-Steagall Act in the US. Some proposals have highlighted the differences between the banking industry, Japanese commercial banks, or city banks, are angered by the proposals that long-term credit and trust banks, with far fewer branches than the city banks, should be given priority in entering the securities business.

Final reports by the advisory groups are expected to be presented early next month.

Learning to live with municipal risk

Simon London on the growing dilemma for international bankers

THERE was once an unchallenged assumption in the capital markets that local government carried the implicit guarantee of central government. However, recent events in Europe are forcing bankers to differentiate between municipal and sovereign credit risk.

Events such as the UK local authority swaps case - in which it was ruled illegal for local authorities to enter into interest-rate swaps contracts - have underlined that central government will not automatically bail out local government.

But the focus is not only on the UK. In Spain, the southern local authority of Aguilera de la Frontera, in the Cordoba region, last month defaulted on a \$125m (£8.27m) eight-year loan arranged through Banco Portugues do Atlantico and Mitsubishi Bank. The banks thought the credit carried a central government guarantee; the issue will now be decided in the courts.

There are similar cases in France. For example, the city of Angoulême, in western France, is currently facing a budgetary deficit of FF170m (£25.3m) and an appeal for central government intervention did not yield results. In September, the city government suspended debt service payments. It has asked banks to waive interest payments over five years. If this is granted, the banks' losses could total FF450m.

A report published last month by Moody's Investors Service, the US credit rating agency, noted "greater uncertainty about the predictability of the behaviour of central governments towards subnational governments in their territory - in particular, ill-managed local authorities".

Ms Thury Trantiti, a Moody's analyst, does not believe that credit risk is rising for all local governments. Rather, the relative risks are widening.

However, analysing the credit risk of a local authority is no simple matter. Loans to local authorities are usually secured on the revenue accruing to the borrower rather than municipal assets. Hence the power of local authorities over revenue and expenditure is a vital component of the overall credit risk.

"Changes in scope and



Michael Heseltine: ruled out retrospective validation

method of revenue collection can cause significant changes in non-payment rates, which could affect the financial health of the local authority," said Ms Trantiti.

The introduction of the UK community charge is a case in point. Capping of UK local authorities has also restricted the amount which can be levied in local taxes.

Equally, controls over expenditure can take a number of forms. Spanish communities face strict limits as to the amount of debt which can be incurred - the government will only guarantee debt up to 35 per cent of the local authority's earnings and if repayment does not exceed 5 per cent of annual cash flow.

Many countries demand that local government budgets are balanced. Independent auditors, such as the UK National Audit Office and the French regional courts of account, are also powerful checks on expenditure and borrowing.

Moreover, local authorities have become more sophisticated in their use of debt instruments and debt management techniques. Unexpected contingent liabilities can arise from off-balance sheet exposures such as guarantees. As new financing and risk management techniques are developed, legislation and regulation does not always keep pace.

Moreover, it is not always clear just what legislation does allow.

Early judgments in the local

authority swaps case ruled that the authorities were quite entitled to use the swaps market - so long as they used it for a specific purpose, risk management. However, the final judgment made clear that the central issue was whether the authorities were empowered to use the swaps market at all without the specific sanction in law.

However, UK law, in the form of the Local Government and Housing Act, is not very specific. Section 111 of the Act allows local authorities to undertake transactions which "facilitate or are ancillary to borrowing".

While Mr Michael Heseltine, the environment secretary, has ruled out legislation to retrospectively validate existing swaps contracts, the financial powers of local government may still require clarification.

The Chartered Institute of Public Finance Accountants (CIPFA), which represents most UK local authority treasurers, has joined the British Bankers' Association in calling for legislation to be tightened up.

Straight borrowing by UK local authorities is not seen as a problem. But, in the absence of higher legislation, local authorities which need to refinance off-balance sheet credit arrangements, sale-and-leaseback agreements, development finance deals are finding the market nervous.

In an attempt to soothe the nerves of the banking community, many authorities are considering applying for credit ratings. Both Moody's and Standard & Poor's rate local government bodies in other countries and have looked at the rating criteria which could be applied in the UK.

However, there are worries that neither the rating agencies nor the banks are fully qualified to rate UK local authorities. Both the Audit Commission and CIPFA are concerned that inadequate ratings are worse than no ratings at all.

CIPFA is working on its own credit rating criteria which it hopes will be adopted by rating agencies and banks alike. "If city institutions are exercising a kind of informal credit rating system already, then it is better to bring the whole issue out into the open and introduce some rationality into the process," commented Mr Bernard

Harty, chairman of the City of London and chairman of CIPFA's treasury management committee.

But credit ratings will not solve the central problem that the law gives only the broadest indication of what the financing powers of UK local authorities are. Leasing activity, guarantees, indemnities and other off-balance sheet finance activities might all - if challenged in the courts - be judged to fall outside the law. It is doubtful whether even the most accurate credit rating can rate the willingness of a local authority to test the outer limits of legislation.

In the absence of either a formal system of credit rating or legal clarification, UK authorities are concerned that they are paying more than necessary for finance.

"There is a feeling that local authorities are being asked to pay more than is necessary - including expensive legal opinion for every transaction," said Mr Richard Harbord, chief executive and treasurer of Richmond borough in south-west London.

Business is still being done. For example, the London borough of Islington is close to completing a £200m refinancing of a deferred purchase arrangement with a group of overseas banks.

Mr Alan Stenning, director of finance, said the negotiations were clouded by the impact of the swaps case.

"Anything other than straight borrowing has become more difficult," he said. "Foreign banks burnt by the swaps case have pulled back from the market, some of them completely."

Among the complex refinancing arrangements considered by Islington to satisfy the banks was a form of loan insurance provided by a US company which carries a top triple-A credit rating. However, such a solution would have meant Islington being rated by an outside agency to satisfy the insurance company. This was a process Mr Stenning could not accept.

"All UK local authorities should carry the same credit rating," he said. "Being rated by an outside agency will only add to the cost of local government."

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees	Book runner
US DOLLARS						
Carlo (London Branch)(b)	200	10 1/2	101 1/2	1998	1 1/2	Nomura Int.
Taya Construction(a)	100	8 1/2	100	1996	2 1/2	Nomura Int.
AUSTRALIAN DOLLARS						
IBM Australia Credit(a)	100	11	101 1/2	1998	2 1/2	Hambros Bank
FRANCS FRANCAIS						
Beghin-Say(b)	455	7.25	100	1999	2.8 1/2	Credit Lyonnais
D-MARKS						
Dresdner Finance BV(c)	100	12 1/2	(c)	1995	-	Dresdner Bank
LIRES						
EIB(a)	600bn	11.10	101 1/2	2001	1 1/2	Ban. Comm. Italiana
GUILDERS						
Wolters Kluwer NV(d)	200	8 1/2	100	1998	2 1/2	Bank Meeus & Hope
FINNISH MARKKA						
Osakekauppa Oyj(a)	300	11.20	102	1998	1 1/2	Union Bank of Finland
YEN						
EIB(a)	50bn	6 1/2	98.45	2001	32.5/17.5	JPB Int.
Hanjin Bank(e)	10bn	(e)	100.25	1998	35/200p	Daiwa Europe

(a) Private placement. (b) Convertible, with equity warrants. (c) Floating rate note. (d) Final terms. (e) Non-callable. (f) Deal issued in form of Depositary Receipts via Law Debenture Trust Corp. Non-callable. (g) Lease and redemption schedule. (h) Deal issued in form of Depositary Receipts via Law Debenture Trust Corp. Non-callable. (i) Deal issued in form of Depositary Receipts via Law Debenture Trust Corp. Non-callable. (j) Deal issued in form of Depositary Receipts via Law Debenture Trust Corp. Non-callable. (k) Deal issued in form of Depositary Receipts via Law Debenture Trust Corp. Non-callable. (l) Deal issued in form of Depositary Receipts via Law Debenture Trust Corp. Non-callable. (m) Deal issued in form of Depositary Receipts via Law Debenture Trust Corp. Non-callable. (n) Deal issued in form of Depositary Receipts via Law Debenture Trust Corp. Non-callable. (o) Deal issued in form of Depositary Receipts via Law Debenture Trust Corp. Non-callable. 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Symbol	Call	Put	Call	Put	Call	Put	Call	Put	Call
SPY	10.00	1.00	10.00	1.00	10.00	1.00	10.00	1.00	10.00
IBM	10.00	1.00	10.00	1.00	10.00	1.00	10.00	1.00	10.00
MSFT	10.00	1.00	10.00	1.00	10.00	1.00	10.00	1.00	10.00
GOOG	10.00	1.00	10.00	1.00	10.00	1.00	10.00	1.00	10.00
AMZN	10.00	1.00	10.00	1.00	10.00	1.00	10.00	1.00	10.00
FB	10.00	1.00	10.00	1.00	10.00	1.00	10.00	1.00	10.00
APPL	10.00	1.00	10.00	1.00	10.00	1.00	10.00	1.00	10.00
ORCL	10.00	1.00	10.00	1.00	10.00	1.00	10.00	1.00	10.00
CRM	10.00	1.00	10.00	1.00	10.00	1.00	10.00	1.00	10.00
ADBE	10.00	1.00	10.00	1.00	10.00	1.00	10.00	1.00	10.00
INTC	10.00	1.00	10.00	1.00	10.00	1.00	10.00	1.00	10.00
QCOM	10.00	1.00	10.00	1.00	10.00	1.00	10.00	1.00	10.00
TXN	10.00	1.00	10.00	1.00	10.00	1.00	10.00	1.00	10.00
AVGO	10.00	1.00	10.00	1.00	10.00	1.00	10.00	1.00	10.00
ARM	10.00	1.00	10.00	1.00	10.00	1.00	10.00	1.00	10.00
ASML	10.00	1.00	10.00	1.00	10.00	1.00	10.00	1.00	10.00
SGS	10.00	1.00	10.00	1.00	10.00	1.00	10.00	1.00	10.00
ASX	10.00	1.00	10.00	1.00	10.00	1.00	10.00	1.00	10.00
ASB	10.00	1.00	10.00	1.00	10.00	1.00	10.00	1.00	10.00
ASD	10.00	1.00	10.00	1.00	10.00	1.00	10.00	1.00	10.00
ASG	10.00	1.00	10.00	1.00	10.00	1.00	10.00	1.00	10.00
ASH	10.00	1.00	10.00	1.00	10.00	1.00	10.00	1.00	10.00
ASJ	10.00	1.00	10.00	1.00	10.00	1.00	10.00	1.00	10.00
ASK	10.00	1.00	10.00	1.00	10.00	1.00	10.00	1.00	10.00
ASL	10.00	1.00	10.00	1.00	10.00	1.00	10.00	1.00	10.00
ASM	10.00	1.00	10.00	1.00	10.00	1.00	10.00	1.00	10.00
ASN	10.00	1.00	10.00	1.00	10.00	1.00	10.00	1.00	10.00
ASO	10.00	1.00	10.00	1.00	10.00	1.00	10.00	1.00	10.00
ASR	10.00	1.00	10.00	1.00	10.00	1.00	10.00	1.00	10.00
AST	10.00	1.00	10.00	1.00	10.00	1.00	10.00	1.00	10.00
ASU	10.00	1.00	10.00	1.00	10.00	1.00	10.00	1.00	10.00
ASV	10.00	1.00	10.00	1.00	10.00	1.00	10.00	1.00	10.00
ASW	10.00	1.00	10.00	1.00	10.00	1.00	10.00	1.00	10.00
ASX	10.00	1.00	10.00	1.00	10.00	1.00	10.00	1.00	10.00
ASY	10.00	1.00	10.00	1.00	10.00	1.00	10.00	1.00	10.00
ASZ	10.00	1.00	10.00	1.00	10.00	1.00	10.00	1.00	10.00
ATA	10.00	1.00	10.00	1.00	10.00	1.00	10.00	1.00	10.00
ATB	10.00	1.00	10.00	1.00	10.00	1.00	10.00	1.00	10.00
ATC	10.00	1.00	10.00	1.00	10.00	1.00	10.00	1.00	10.00
ATD	10.00	1.00	10.00	1.00	10.0				



PHILIPS

UK COMPANY NEWS

Bass falls 15% to £209m as recession takes its toll

By Philip Rawstorne

BASS, the brewing, hotels and leisure group, yesterday reported a 15 per cent decline, from £247m to £209m, in interim profits reflecting the impact of the economic downturn on trading conditions in the UK and US.

Mr Ian Prosser, chairman, who had warned of the effects of the recession during the six months to April 13, said that any recovery would probably come too late to have a significant impact on annual profits. Trading levels had remained below last year's, but he was optimistic that the outcome would compare more favourably with last year's results than the interim figures. Analysts are forecasting pre-tax profits of £520m.

Turnover during the first half fell marginally from £2.25bn to £2.24bn, but operating profits dipped 10 per cent to £266m (£266m).

Earnings per share declined 15 per cent to 42.1p (51.5p). The interim dividend, however, rises to 8.9p (9p).

The recession was felt across all divisions.

Brewing profits fell to £77m (£79m) on turnover of £820m (£798m). Total beer volumes declined by 3 per cent - due partly to the disposal of pubs from the Bass estate. However, free-trade volumes rose 1.5 per cent and the group claimed it had increased its market lead in the take-home trade.

Profits from soft drinks dropped 37.5 per cent to £5m (£8m) on turnover only slightly lower at £205m (£208m).

Pub retailing turnover fell to £827m (£853m) and operating profits to £115m (£128m). Trading conditions were toughest in the south of England and in pub restaurants.

Another 360 pubs were sold for £67m during the half-year.

bringing total disposals to 540. Under the terms of government orders, the group has to free 2,750 pubs from tied beer supplies, but it intends to invest in new pubs in growth areas such as city centre bars.

The Holiday Inn hotel division recorded a reduced operating profit of £42m (£47m), on turnover down from £285m to £274m. Occupancy rates were down, but by less than those for the industry overall, it claimed.

Mr Prosser said occupancies had shown an encouraging recovery since the end of the Gulf war and that reservations were now ahead of last year.

Leisure turnover - including that of Coral, the bookmaker which is now up for sale - declined from £533m to £512m and operating profits were 17 per cent lower at £24m (£29m).

See Lex

Grampian offers £56.5m for Macarthy

By Clare Pearson

GRAMPIAN HOLDINGS, the Glasgow-based mini-conglomerate, last night launched a £56.5m all-paper hostile takeover offer for Macarthy, the pharmaceutical group with a recent history of takeover.

Grampian is offering eight new convertible cumulative redeemable preference shares at 10p each, plus one ordinary share for every five Macarthy 20p shares.

At Grampian's close yesterday of 185p, up 2p, that valued the shares at 206.5p. Shares in Macarthy jumped 24p to 152p.

Mr Ian Parsons, Macarthy's chief executive, dismissed the offer as "clearly inadequate" and urged shareholders to take no action.

Grampian, which has diverse interests including sports goods and transport as well as pharmaceuticals, said there would be benefits from integrating its own pharmaceutical manufacturing and veterinary medicine businesses with Macarthy's.

It attacked as "sub-standard and misleading" the recent track record of Macarthy, which earlier this year had to dip into reserves to maintain its dividend after reporting 1990 pre-tax profits of £4.61m (£5.6m).

Mr Bill Goodall, chairman, said the group's main business continued to stand up well in a difficult environment.

He said that as forecast, much of the world papermaking activity remained at a high level, and even though profits had declined in the paper industry, the demand for engineered fabrics and engineered roller coverings was at a good level although competition remained strong.

Orders for new paper machines, however, slowed appreciably and initial start-up orders for the group's products were lower than usual.

Mr Goodall said that year-end net borrowings were

RHM cautions after small midterm fall

By Roland Rudd

RANKS HOVIS McDougall, the food and bakery group, yesterday reported a small fall in interim taxable profits from £70.9m to £75.5m on turnover down by 16 per cent from £914.5m to £766.3m.

However, the group had better news to announce from its cash control policies, which resulted in interest receivable of £3.9m for the half year to March 2, against a charge of £19.9m previously.

Mr Stanley Metcalfe, chairman, said he was pleased that profits had held up well, despite severe competition and recession on both sides of the Atlantic.

But he added: "There are no indications that the difficult trading conditions experienced in the first half, including the property sector, will improve during the second half."

Despite an increase in dollar sales, the US companies reported reduced pre-tax profits of £5.6m (£8.7m). The group blamed a disastrous peanut crop, which doubled prices.

An increase in the costs of advertising Mr Kipling and Cadbury's cakes were behind the fall in Manor Bakeries to £7.4m (£8m).

Grocery products, helped by last year's cost reduction, reported static profits at £17m,

despite the strength of sterling. Milling and bread baking increased profits from £31.2m to £33.3m due to reduced overheads. Food services achieved a rise from £6.6m to £8.5m.

The interim dividend is unchanged at 3.82p on increased earnings per share of 14.5p (14.5p).

COMMENT

Shareholders have two reasons to be disappointed by these results. First, they expected an increase in the dividend in the event it was held. Investors were not alone in hoping for better dividend news - most analysts had forecast a rise. If

that was not enough bad news for one day the group decided to put out a very gloomy profit forecast. The outlook may appear bad, but few chairman put it in such stark terms as Mr Metcalfe, who said there were no indications that things would pick up in the second half. However, better news should be just round the corner. With most of the business reporting increased profits, the group appears to be keeping its powder dry for later in the year. Earnings per share are expected to increase to 25p for the year end, putting the shares on a prospective multiple of 9.5.

Scapa makes £55.6m cash call

By Andrew Bolger

SCAPA GROUP, the Blackburn-based manufacturer of specialist products for the paper and printing industries, is raising £55.6m in a fully underwritten rights issue to reduce borrowings and fund further growth.

The group is issuing 44.88m new shares at 127p on a 1-for-4 basis. Scapa shares closed 9p lower at 150p.

Scapa also reported a 6 per cent decline in pre-tax profits to £42.3m in the year to March 31. Turnover was ahead just 2 per cent to £280.5m.

Mr Bill Goodall, chairman, said the group's main business

continued to stand up well in a difficult environment.

He said that as forecast, much of the world papermaking activity remained at a high level, and even though profits had declined in the paper industry, the demand for engineered fabrics and engineered roller coverings was at a good level although competition remained strong.

Orders for new paper machines, however, slowed appreciably and initial start-up orders for the group's products were lower than usual.

Mr Goodall said that year-end net borrowings were

£62.2m, representing gearing of 40 per cent, a level which had begun to constrain the group from taking advantage of external and internal investment opportunities.

Expansion in engineered fabrics and engineered rolls would continue in Europe, North America and in the Pacific region. A similar policy expansion was being followed in the industrial materials division, where complementary businesses would be acquired.

Earnings per share were 15.7p (16.6p). A final dividend of 3.76p is proposed for a total of 5.26p (5.01p).

Charterhouse likely to bid for BCMB

By David Lascelles, Banking Editor

Charterhouse, the merchant banking arm of the Royal Bank of Scotland, is close to announcing its interest in buying British & Commonwealth Merchant Bank, currently in the hands of the administrators.

Charterhouse is believed to have negotiated exclusive rights to make a due diligence examination of BCMB, the main step towards making an actual purchase. It has indicated that it would be willing to bid about £20m, based on a formula linked to the quality of BCMB's loan book.

BCMB has been in administration since the collapse last year of its parent, British & Commonwealth, and its assets have been frozen.

An earlier attempt by the Cukurova group of Turkey to buy the bank failed after two UK clearing banks with deposits in BCMB would not agree to the purchase terms.

About £100m of stockbroker client money is locked away in BCMB, and many have been unable to recover funds. An acquisition by Charterhouse would increase their chances of obtaining full repayment.

Depositors who had money in their own names have been receiving payments from the Deposit Protection Board which pays out 75 per cent of deposits up to £20,000. The Board, which published its annual report yesterday, expects to pay out £2m to BCMB depositors.

Blacks trends fashionable path to hit £3.5m

By Michio Nakamoto

RECESSION-RESISTANT popularity of fashion footwear supported a substantial rise to £3.5m in taxable profits at Blacks Leisure, the camping goods and sportswear retailer, in the year to March 2.

The rise from £1m was accompanied by moves to raise £4.7m through a 2-for-5 rights issue of 8.3m shares at 62p apiece. The shares rose 4p at 57p.

The sports distribution division put in strong pre-tax profits of £2.58m (£2,570,000) while the retail division contributed £3.08m (£1,880m). Overall turnover rose to £59.9m (£53.8m).

Gearing has been reduced from 176 per cent to 113 per cent at the year end on net assets of £8.52m.

Part of the proceeds of the rights issue will go towards reducing gearing further to about 60 per cent, after payment of £1.2m to cover part of a deferred consideration.

Earnings per share were up to 12.64p (8.53p) and a final dividend of 2.25p is recommended, making a total of 3.25p (1p).

Taunton Cider managers complete £73m buy-out

By Philip Rawstorne

MANAGEMENT AT Taunton Cider, the UK's second largest cider maker, yesterday completed a £73m buy-out from the company's main shareholders, Bass, Courage and Scottish & Newcastle.

Bass later announced that it had received £30.2m for its 41 per cent share in the company. Courage had a similar stake, and S&N is understood to have held about 9 per cent.

The three brewers put the Somerset-based company - which claims a 33 per cent share of the £570m cider market - on sale in February after a review of their investments.

A number of Taunton's previous regional brewery shareholders have retained an investment in the new company.

Mr Peter Adams, Taunton's chief executive who led the buy-out team, said that the deal would give all the company's 450 employees a stake in the business.

"This will give everyone in the company a major incentive in developing a successful long

term future for the business," he said.

Directors and employees have taken a 15 per cent stake and institutions are taking 80 per cent.

As well as the employee investment, principal equity funds have been underwritten by Morgan Grenfell Development Capital and banking facilities have been provided by Samuel Montagu.

Taunton, set up by the brewers' consortium in 1969, made estimated pre-tax profits of £10.5m in the year to May 6.

Though number two to Bulmer in the overall cider market, Taunton's Dry Blackthorn vies with Bulmer's Strongbow for brand leadership in draught sales. Taunton occupies third place in take-home sales.

Much of Taunton's recent growth has come from brand innovation.

Its Diamond White and Red Rock ciders, backed by vigorous marketing campaigns, have become strong contenders in both the packaged and draught markets.

It attacked as "sub-standard and misleading" the recent track record of Macarthy, which earlier this year had to dip into reserves to maintain its dividend after reporting 1990 pre-tax profits of £4.61m (£5.6m).

Mr Bill Goodall, chairman, said the group's main business

continued to stand up well in a difficult environment.

He said that as forecast, much of the world papermaking activity remained at a high level, and even though profits had declined in the paper industry, the demand for engineered fabrics and engineered roller coverings was at a good level although competition remained strong.

Orders for new paper machines, however, slowed appreciably and initial start-up orders for the group's products were lower than usual.

Mr Goodall said that year-end net borrowings were

HunterPrint cuts loss to £4.7m

By Jane Fuller

HUNTERPRINT Group, the printing combine rescued last year by a new management team led by Sir Ian MacGregor, cut pre-tax losses from £6.62m to £4.68m in the six months to March 31.

The reduced deficit came on sales down 38 per cent to £23.21m (£36.17m). About £5m of that drop was accounted for by the disposal of loss-making businesses.

At the operating level, losses were cut to £3.41m (£4.18m) and interest costs came down to £1.84m (£1.96m).

There was also a £368,000 exceptional gain (£602,000 charge) as the cost of moving equipment turned out to be less than expected.

Sir Ian, former chairman of

British Steel and the National Coal Board, said revenue in the ongoing businesses was down by 25 per cent because of the depressed state of the market.

The industry's overcapacity and intense competition. It was estimated that the market was down 25 per cent compared with two years ago.

HunterPrint's revenue had "big holes" in it from October to December, before new management settled in.

Their arrival was accompanied by the issue of 150m shares at 10p each which had raised £15m. Nearly half of that had gone to satisfy trade creditors.

The group was now cash positive and should be in profit by the end of the calendar

year, Sir Ian said.

Mr David Dalton, managing director of operations, said the Corby factory, which cost £34m to build causing a large chunk of the previous losses, had increased output while operating for five days a week instead of seven. Machine downtime had been halved and the factory was operating at 90 per cent capacity over five days.

Mr Jonathan Stuart, finance director, said debt stood at £10m. Gearing, which was 50 per cent excluding leases (140 per cent with them) after the share issue, had gone up because of the retained loss, but was now declining.

Losses per share were 3.59p (33.85p).

that was not enough bad news for one day the group decided to put out a very gloomy profit forecast. The outlook may appear bad, but few chairman put it in such stark terms as Mr Metcalfe, who said there were no indications that things would pick up in the second half. However, better news should be just round the corner. With most of the business reporting increased profits, the group appears to be keeping its powder dry for later in the year. Earnings per share are expected to increase to 25p for the year end, putting the shares on a prospective multiple of 9.5.

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Depositors who had money in their own names have been receiving payments from the Deposit Protection Board which pays out 75 per cent of deposits up to £20,000. The Board, which published its annual report yesterday, expects to pay out £2m to BCMB depositors.

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Year ended 31st March 1991

PRE-TAX PROFITS £215.2M +22.9%

DILUTED NET ASSETS Per Share 671p -22.6%

NET RENTAL INCOME +21.1%

EARNINGS PER SHARE +25.2%

DIVIDENDS PER SHARE +16.2%

(Proposed Final 14.25p)

PORTFOLIO VALUATION £4,708.5M

SHAREHOLDERS' FUNDS £3,370.9M

- 79% of income from development programme secured by lettings

- Only 7.3% of debt repayable before year 2000

- Interest payable covered 2.8 times

- Gearing 33% (net)

LAND SECURITIES PLC

The Report and Financial Statements for the year ended 31st March 1991 will be posted on 8th June 1991. Non-shareholders who would like a copy are requested to write to: The Secretary, Land Securities PLC, Landsec House, 21 New Fetter Lane, London EC4P 4PY

Prices for electricity determined for the purposes of the Electricity Act 1989 and the Electricity (Prices) Regulations 1989. Prices are shown in pence per kWh.

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This announcement appears as a matter of record only

Countryside PROPERTIES

Countryside Investments Limited

a wholly owned subsidiary of

Countryside Properties PLC

£20,250,000

6 Year Fixed Rate Investment Loan

Arranged by

Bayerische Hypotheken- und Wechsel-Bank Aktiengesellschaft
London Branch

Funds provided by

Bayerische Hypotheken- und Wechsel-Bank Aktiengesellschaft
London Branch

HYPOBANK

April 1991

Tokyo Pacific Holdings N.V.
Curacao, Netherlands Antilles

At the Annual General Meeting of Shareholders held on 21st May, 1991 a cash dividend of US\$ 9.39 per Ordinary Share was declared payable as from 31st May 1991 against delivery of dividend coupon No. 21 with any one of the Paying Agents.

Tokyo Pacific Holdings (Seaboard) N.V.
Curacao, Netherlands Antilles

At the Annual General Meeting of Shareholders held on 21st May, 1991 a cash dividend of US\$ 6.88 per Ordinary Share was declared payable as from 31st May 1991 against delivery of dividend coupon No. 21 with any one of the Paying Agents.

Pierson, Holding & Pierson N.V.
Rokin 55,
1012 KK AMSTERDAM

National Westminster Bank PLC
Stock Office Services
3rd Floor, 20 Old Broad Street
London EC2N 1EJ

Paribas
3 Rue d'Artin, Paris 2

Paribas (Luxembourg) S.A.
10a Boulevard Royal
Luxembourg

Trinkaus & Burkhart
Königsallee 21-23
D 4000 Düsseldorf 1

Sat. Oppenheim & Co.
Unter Sachsenhausen 4
D 5000 Köln

UK COMPANY NEWS

All divisions help lift restructured Courtaulds 11%

By Clive Cookson

COURTAULDS, the specialist materials group, raised pre-tax profits by 11 per cent to £186.3m for the year to March 31, but the company set aside £68.7m as an extraordinary item to cover the costs of further restructuring during the coming year.

"The increase in profits has been achieved against a background of deteriorating economic conditions," said Sir Christopher Hogg, chairman. "The manner in which the group's businesses have coped with these conditions in the first year following the demerger of our textiles operations suggests we have a sound business for the future."

The profits were about £10m above market expectations - mainly because the group was less affected than expected by adverse currency movements - and the shares rose 5p to 385p.

Courtaulds refused to divulge details of the coming year's restructuring plans. "We cannot say anything because we are very sensitive to the commercial implications," Sir Christopher said.

This year's £68.7m charge follows an extraordinary item of £41.8m last year which related mainly to reducing overcapacity in the acrylic fibres business. Courtaulds' factory in Calais has been closed but the planned sale of its factory in Barcelons to Enichem, the Italian chemicals group, may not go through after the US and the dollar suddenly strengthened before the end of the financial year.

Unless Courtaulds is lucky again in 1991-92, profits are unlikely to be much higher and the shares, which have performed strongly over the last year, are high enough.

Group turnover was flat at

£1.9bn but all five business sectors - coatings, performance materials, packaging, chemicals, fibres and films - increased operating profits in 1990-91.

The strongest growth came in marine paints, on the back of a shipbuilding boom in the Far East, and in cellulose fibres (rayon) which are much in demand by the US fashion trade.

Earnings per share rose by 14 per cent to 36.5p (32p) and the final dividend of 8.6p makes a total for the year of 12p (11.1p).

COMMENT

Courtaulds has a very firm vision of its future after the textiles demerger as "an international specialty materials company" making chemicals that "protect and decorate surfaces". It wants also to continue making cellulose films and fibres made from wood pulp.

As the continuing restructuring costs above, there are still several operations that do not fit for example making acrylic fibres, polythene films and cigarette filter tips.

Although Sir Christopher Hogg is passing on the chief executive's role to Mr Sipko Huisman, Courtaulds remains an extremely well-managed company and the vision is within reach. Even so, there are sure to be some stumbles on the way. Two strokes of fortune boosted 1990-91 profits: rayon clothes came back into fashion in the US and the dollar suddenly strengthened before the end of the financial year.

Unless Courtaulds is lucky again in 1991-92, profits are unlikely to be much higher and the shares, which have performed strongly over the last year, are high enough.

WHS sells TV side to consortium for £65m

By Alice Rawsthorn in London and William Dawkins in Paris

BACK IN the early 1980s when WH Smith first ventured into the world of television, cable and satellite broadcasting looked like a exciting new medium with a lucrative future.

Unfortunately for WHS, the progress of the cable and satellite market has been far slower than it expected. WHSTV, its television business, has already absorbed an estimated £80m and is still two years away from break-even.

Yesterday, WHS announced it was calling a halt to its expensive foray into television by selling WHSTV to a consortium of investors - including Canal+, the French TV company; Capital Cities/ABC, the US communications group; and Compagnie Générale des Eaux, the French water company; and the WHSTV management - for £65m.

The consortium has bought a business which includes three cable and satellite channels: Screensport for sports, Lifestyle for women's interest and the Cable Juke Box service - as well as Molinare, the London-based television services group and a 19.5 per cent stake in Yorkshire TV, the independent television company.

Canal+ said its main reason for investing in WHSTV was to broaden its portfolio of theme channels, one of the fastest

growing areas of its business.

It is particularly interested in sports broadcasting having invested in the area last summer. Canal+ is also keen to expand into pay-TV outside France partly to compensate for slower growth from its original French services as its domestic market becomes saturated.

The WHSTV theme channels, Screensport and Lifestyle, which are both broadcast across Europe by the Astra satellite, are still off-loss-making. Screensport is now received in 20m homes and is expected to reach its break-even level of 30m homes in 1992. Lifestyle, which reaches 8m homes, is scheduled to break even within a year providing it reaches 15m homes.

Both Screensport and Lifestyle will need further investment until they break even. Mr Francis Baron, WHSTV's chief executive, said that when the retail recession struck it became clear that WHS needed to concentrate resources on its core businesses.

Negotiations with the other consortium members - all existing partners of WHSTV started in January. When the sale is completed WHSTV will turn into a new company, with a new name, armed with new investment for the future.

Carlson to expand UK base by acquiring Smith Travel

By David Churchill, Leisure Industries Correspondent

CARLSON TRAVEL, the privately-owned US group based in Minneapolis, is negotiating to buy the retail travel operations of WH Smith. The consideration was not disclosed.

The move is part of Carlson's plans to take a significant stake in the UK travel market. Last year it acquired the AT Mays travel agency chain, the fourth largest, for £15m from the Royal Bank of Scotland.

Smith Travel is the seventh largest travel agency chain in the UK with 60 stand-alone shops and 80 outlets within the Smith retail chain.

The combination of Mays, with 297 outlets, and Smith Travel will still leave Mays in fourth place in the market, behind Lunn Poly, Thomas Cook, and Pickfords Travel.

Carlson, however, is also understood to be negotiating with NFO, the UK transport group, to acquire its Pickfords Travel retail subsidiary. If suc-

cessful, it would create the largest retail travel group in the UK.

NFO has been anxious for some time to sell off Pickfords because it does not fit in with its core strategy. Apart from Carlson, it is also talking with Wagon-Lits, the French travel group.

WH Smith said yesterday that it had signed heads of agreement for Carlson to buy the stand-alone travel shops. It seems unlikely that it will also want to buy the in-store outlets, which Smith's plan to convert into retail selling space.

Smith's departure from travel retailing had been widely expected, after the problems the industry has faced over the past six months as a result of the recession and Gulf War. Package holiday bookings fell sharply during the first part of the year and even now the market is reported to be at least 10 per cent below last year's levels.

Partnership talks could lead to BA taking direct stake in Sabena

By Paul Belts in London and David Gardner in Brussels

BRITISH AIRWAYS and Sabena are in advanced talks over a new partnership which would see BA invest in a large direct stake in the financially troubled Belgian airline.

Mr Pierre Godfroid, chairman of Sabena, confirmed yesterday that his airline was in partnership negotiations with both BA and Air France, the French national flag carrier. But talks with BA were the most advanced.

Sir Colin Marshall, chief executive of BA, also confirmed this week that the two companies were continuing discussions over a new partnership following the collapse last January of the tripartite venture between Sabena, BA and KLM Royal Dutch Airlines.

Talks between BA and Sabena have been at top level. Unlike the aborted partnership involving KLM, the current negotiations would involve an alliance with only one partner.

Lord King, BA chairman, had also indicated that BA was interested in investing directly in the Sabena parent company rather than taking a stake in a Sabena subsidiary, as was the case with the original BA-KLM-Sabena deal.

Mr Godfroid said yesterday his airline had fixed an end of July deadline to reach a provisional agreement with a partner. He expected the new partner to buy at least a 25 per cent stake in Sabena.

An eventual partnership agreement is part of Sabena's long term recovery plan, which

also includes substantial Belgian government financial support. The government owns 52 per cent of the airline.

The European Commission is examining a Belgian government plan to inject BF35.2bn into Sabena. However, Mr Karel van Miert, the EC transport commissioner, said in an interview he expected the aid to be approved provided "it is clear and unequivocal that this is Sabena's last chance."

Brussels would insist on two conditions for the Sabena bailout. The first is that Sabena must make more room for other operators in Belgium. The second is that after negotiating a partnership it can satisfy EC competition authorities that this will not lead to the monopoly of important routes.

Provisions and write-down hit Chesterfield

By Roland Rudd

CHESTERFIELD Properties reported a 5 per cent increase in taxable profits for 1990, despite a £2.26m write-down in the value of property held as dealing stock.

However, failure to generate sufficient profits in the UK to offset against advanced corporation tax forced the company to make an exceptional write-off of £3.4m. Earnings per

share fell from 34.3p to 10.6p.

Pre-tax profits were £12.76m (£12.12m) on turnover of £35.3m (£28.61m). The revaluation of the Bridgend shopping centre caused the write-down.

Interest charges of £9.76m (£10.05m) excluded development outgoings of £16.28m (£13.38m) before tax relief. Borrowings of £200m, represented 88 per cent of shareholders'

funds. Net asset value fell to £225m (£207m).

The value of the investment portfolio fell by 10 per cent to £346.68m. A further £29.5m of provisions have been made in respect of developments completed since the year end which have therefore not been included in the 1990 valuation.

The final dividend of 11.5p makes 18.5p (17.6p) in total.

KING & SHAXSON HOLDINGS PLC

EXTRACTS FROM THE STATEMENT OF THE CHAIRMAN, MR. W.E.C. D'ABBANS

Your Directors have pleasure in reporting a profit for the year ending 30th April 1991 of £1,800,000 after providing for rebate, taxation and transfer to contingencies reserve. A final dividend of 7.75 pence per Ordinary share is proposed, making a total for the year of 10.25 pence, the same as the previous year.

King & Shaxson Money Brokers Ltd has had an excellent year and made an important contribution to Group profits. I am pleased that all the efforts of the management and staff are bearing fruit. As I forecast last year the Government has returned to the Gilt Market as a borrower which should increase the market makers' needs for the services of our Company. In addition, the recent increase in activity in the Equity Market has reflected in the Money Brokers' profits.

Last year I informed you of two trade investments we had then very recently made in Just Ice (U.K.) Ltd. and Chocfleet Ltd. (now renamed Kingfries Ltd). Just Ice, which virtually broke even in the year to September 1990, is looking forward to a profitable year in 1991, and has added substantial new business in the past twelve months. The effects of recession, and the longer timescale needed to introduce a new product into the market, have meant that Kingfries is only now beginning to show its potential with initial orders being received from at home and abroad. It is therefore expected that in the current year both these investments will show an improved contribution to our profit and loss account.

As always it is extremely hard to look into the future. It will probably be some time before we see the full effects of the reduction in Base Rates from 15% to 12%. I am sure that there will be conflict between factors - such as the underlying rate of inflation, output prices, wage increases (particularly in the public sector) and the discipline of the E.R.M. - calling for caution in further declines in interest rates and those on the other side - such as the level of unemployment, the fall in industrial production and the desires of politicians - arguing the other way.

Copies of the 1991 Annual Report and Accounts may be obtained from the Secretary, King & Shaxson Holdings PLC, 52 Cornhill, London EC3V 3PD.

"An encouraging set of results."

THREE MONTHS RESULTS

£1=\$1.91 for 1991 (\$1.79 for 1990)

	Three months to March		Change
	1990	1991	
CONTINUING GROUP TURNOVER (including Farmers' exchanges)	£4,108m	£4,170m	+2%
PRE-TAX PROFIT	£159m	£223m	+40%
EARNINGS PER SHARE	5.3p	7.7p	+45%

● Quality of Group businesses demonstrated by encouraging performance in difficult times for world economy.

● Tobacco: volumes up 5 per cent. Trading profit of £191m.

● Financial services: Farmers, Allied Dunbar and Eagle Star Life performed well. Eagle Star's underwriting results unsatisfactory.

● Board to consider declaring first interim dividend on 29 May, at a meeting before Annual General Meeting.

● "The Group's first quarter's results are encouraging and I will comment more fully on our prospects at the AGM."

Sir Patrick Sheehy, Chairman



B.A.T. INDUSTRIES

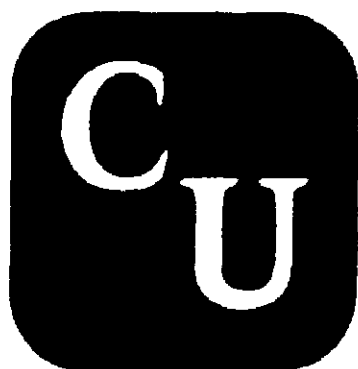
The full quarterly report is being posted to shareholders and copies are available from the Company Secretary, B.A.T. Industries p.l.c., Windsor House, 50 Victoria Street, London SW1H 0NL.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interim or final and the sub-headings shown below are based mainly on last year's meetings.

TODAY
Interview: Aston & Hutchinson, Archer (A), Dobson Park, Mortimer, Sharnbrook, Thornton (S), Warner, Smith.

FUTURE DATES
Interview: Alderson Trust June 3
Interview: Alderson Trust June 12
Interview: Alderson Trust June 28
Interview: Alderson Trust May 28
Interview: Alderson Trust May 28
Interview: Alderson Trust May 28



THREE
MONTHS'
REVIEW

Good life performance Non-life remains unprofitable

- ★ Operating loss £24.2m.
- ★ Life profits increased to £26.5m.
- ★ Higher claims and inadequate premium rates affected non-life results, particularly in the United Kingdom and Continental Europe.
- ★ Life premiums 13% higher despite more difficult market conditions in the United Kingdom.
- ★ Shareholders' funds increased by £123m to £1,358m.

HIGHLIGHTS		
	3 months 1991 Unaudited	3 months 1990 Unaudited
Total premium income	£1,107m	£1,051m
Operating loss before taxation	£24.2m	£25.6m
Operating loss after taxation	£19.7m	£20.0m
Loss per share	4.6p	4.7p



Commercial Union plc

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ALCATEL ALSTROM
COMPAGNIE GENERALE D'ELECTRICITE
Corporation organized under French Law (Société Anonyme)
Capital : French Francs 4,341,397,360
Head Office : 54, rue la Boétie - 75008 PARIS
Registered Head Office : PARIS B 542 019 096

FIRST NOTICE
The holders of 6 1/2% 1990-2000 Bonds of FF 680 nominal value issued by ALCATEL ALSTROM COMPAGNIE GENERALE D'ELECTRICITE are notified that a General Meeting to be held at 50 rue Tailbout - 75009 PARIS (France) on June 10, 1991 at 3.30 p.m., in order to consider the following agenda:

- Board of Directors' Report.
- Approval of the decision proposed to the Extraordinary Meeting (Ordinary and Extraordinary) of shareholders, authorizing the board to issue, with waiver of their preferential right:
 - share warrants,
 - bonds with share warrants,
 - bonds convertible into shares,
 - stocks offering access to shares through conversion, exchange, redemption, exercise of a warrant or otherwise,
 - shares upon presentation of stocks issued by subsidiaries of the company, approval, in case of need, of the decision to suppress the preferential right of subscription resulting from the underwriting by ALCATEL ALSTROM COMPAGNIE GENERALE D'ELECTRICITE of two convertible debentures of the GENERALE OCCIDENTALE company within the frame of the merger between these two companies.
- Decision on the method of recording the documents of the General Meeting.

To permit the bondholders to attend or to be represented at these meetings, the Bonds or their deposit receipts, must be deposited at least five days before the date fixed for the meetings, at the offices of the banks having participated in the placing of these Bonds and from whom proxies or admission cards can be requested. These meetings shall be validly held if the holders of twenty five per cent of the outstanding bonds entitled to vote are present in person or represented.

This announcement appears as a matter of record only.

HAMBRO COUNTRYWIDE RELOCATION

Hambro Countrywide Relocation plc

**£70,000,000
Revolving Credit Facility**

Arranged and provided by
Barclays Bank PLC
Financial Institutions Group

BARCLAYS

May 1991

UK COMPANY NEWS

Cigarette sales fuel 40% first quarter rise at BAT

By Andrew Boiger

BUOYANT SALES of cigarettes helped BAT Industries, the tobacco and financial services conglomerate, increase pre-tax profits by 40 per cent to £223m in the three months to March 31.

However, the underwriting results from Eagle Star, the UK general insurance business, continued to be unsatisfactory, said Sir Patrick Sheehy, chairman.

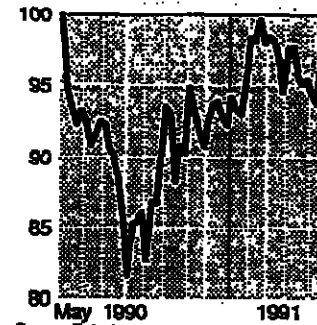
Turnover rose by 2 per cent to £4.17bn and earnings per share increased by 45 per cent to 7.7p (5.3p).

Sir Patrick said tobacco made an excellent start to the year, with cigarette volume up 5 per cent. Trading profit was 22 per cent higher at £191m. Growth had been particularly marked in the Far East, while further sales were expected from joint ventures, such as one currently being negotiated in Hungary.

He said that while the tobacco results were encouraging, the first quarter tradition-

BAT Industries

Share price relative to the FT-A All-Share Index



ally accounted for the smallest proportion of trading profit, so the 22 per cent increase might not be typical of the year as a whole.

Trading profit in financial services recovered from £79m to £115m. The life businesses contributed £59m, an 11 per cent increase, and general business more than doubled

to £58m.

Many of the difficulties experienced in the UK general insurance market continued into the first quarter. Eagle Star's overall trading loss of £9m was an improvement over the comparable period, but this was principally due to the increased investment return.

Sir Patrick said underwriting remained unsatisfactory with losses up from £9m to £113m. The UK household and motor accounts in particular suffered from increased claim costs and frequency.

Premium rate increases have been introduced, or were planned, for all lines of business, but it would be some time before Eagle Star's results fully benefited from this action. A further provision of £5m had been made in respect of discontinued lines of financial insurance.

The contribution of Farmer's, the group's California-based insurer, to trading profit increased by 12 per cent in dollar terms to £58m. Higher profit from the management company reflected increased business and greater investment income. More policies in force and slightly better premium levels resulted in higher fee income.

Allied Dunbar, the UK's largest life assurance and unit trust group, contributed £31m to group trading profit, an increase of 16 per cent. Sir Patrick said that while new initial commissions were 8 per cent lower, this performance was a creditable result in difficult economic conditions.

Debt laden Trencherwood incurs £29m loss

By Andrew Taylor

TRENCHERWOOD, the heavily-borrowed residential and commercial property developer which is in breach of its loan agreements, yesterday announced a £29.2m pre-tax loss for the year to October 31. That compared with a profit of £8.7m for the previous 12 months.

The group, which had bank borrowings of £48.5m at the end of October, equivalent to 186 per cent of shareholders' funds, said refinancing negotiations with bankers were in their final stages. It was confident that new facilities would be available shortly.

Mr John Norgate, chairman, said that in light of the results the company would not be paying a final dividend. It had previously cut the interim dividend from 1.5p to 0.5p. The share price fell from 87p to 54p.

Pre-tax losses included an exceptional item of £23.5m, mainly attributable to a £21.4m write-down against commercial and residential properties. A further £1.7m had been set against the failure of three commercial property joint venture partners to meet their financial obligations.

Net asset value per share declined from £1.88 to 87p. Mr Norgate said the group was reorganising its business to concentrate more heavily on housebuilding, which would in future account for about 75 per cent of group activities, instead of 50 per cent as at present.

Flotation values Man Utd at £47m

By Jane Fuller

THE FOOTBALL season may be over but Manchester United is about to enter a new financial league with a stock market flotation that values it at £46.5m - more than initially expected.

With the polish barely dry on the European Cup Winners Cup, won in Rotterdam last week, the club can boast a likely pre-tax profit of £5.26m for the year to July 31 on sales of £17.5m. The European cup run brought in about £2.5m profit.

It is only the second UK football club to come to the main market. London rival Tottenham Hotspur has had its shares suspended pending refinancing of its heavy debt.

United's fans - and other members of the public - can apply for 56 per cent of the 4.68m shares available at 385p each. The minimum number which can be applied for is 50, which will cost £192.50.

United will receive net proceeds of £16.5m from the flotation, of which £6.7m will go towards the £12m-£18m cost of redeveloping the Stretford End of the Old Trafford ground.

The directors, led by chief executive Mr Martin Edwards, who owns 5m shares, will receive a bigger portion as they reduce their total holding to 44.4 per cent. About 2.6m shares are being placed on their behalf and 2.1m new ones being issued to take the total to 12.1m.

Mr Edwards was bullish about business prospects. Admission prices were going up by 30 per cent, there would be more home games, including at least two in European tournaments, and interest

income would be collected on the flotation proceeds as well as the £3m that the club already had on deposit.

For fans who read the FT, the dividend forecast for 1991-92 is 17.4p, giving a 6 per cent yield, and the price-earnings ratio is 10.6 on forecast earnings of 36.2p.

Neither of these figures put United in the top league. The yield is more generous than the FT-A All-Share average, which stands at about 4.8 per cent. While the prospective p/e is well below the market and also less than the flagging leisure sector's historic level of 11.4.

Mr Glenn Cooper, managing director at Henry Ansbacher, United's financial advisers, said the "Spurs effect" had probably increased the yield that United had had to offer potential investors and reduced the p/e ratio.

The dividend will cost about 32p, nearly 10 times the most that has been paid out before. It may be only twice covered by 1991-92 after-tax earnings per share from "core" profits, which assume no progress in cup competitions.

Next year, core profit should at least equal the £8.1m pre-transfer total forecast for 1990-91. The plan is to use any extra money earned in cup competitions to build up a reserve fund to buy players. Mr Alex Ferguson, team manager, has spent nearly £5m net on players since 1986 and in 1989-90 some of those costs knocked the club into a pre-tax loss of £3.1m.

Mr Edwards said that as no dividend was being paid this year, about £2m would be put in to launch the transfer fund.

CU to push for increase in non-life premiums

By Clare Pearson

COMMERCIAL UNION, the UK general and life insurer, yesterday reported pre-tax losses for the three months to end-March of £24.2m, down from £25.6m last time.

Mr Tony Brend, chief executive, said the company would be pushing for further increases in rates on non-life business after a continuing deterioration in results, despite the absence of the storms which affected the comparable quarter.

He said non-life business had been particularly difficult in the UK where rates generally remained "substantially below the levels needed to provide an acceptable return".

In addition, that business was affected by higher claims for subsidence, fire and theft and a number of large claims from commercial risks.

Mr Brend said the worldwide life operations had continued to make good progress with underlying growth in premiums of 13 per cent.

Total premium income was broadly static at £1.1bn. In local currency terms life premium income rose by 13 per cent while on the non-life side it was up by 6 per cent.

With investment income amounting to £28m (£54.8m) and underwriting losses up to £120.6m (£117.7m), non-life operating losses amounted to £50.7m (£51.6m). Life profits were £26.5m (£26m).

The small cut in non-life losses reflected the absence of the storm factor. There were also slight improvements in operations in some parts of the world, notably the Netherlands and the US.

A breakdown of operating results from local operations showed the UK increasing losses to £14.4m (£13.9m) while the Netherlands pushed profits ahead to £15.4m (£10.6m). The US moved into a profit of £3.2m (£200,000 loss).

Thanks to gains in stock markets, shareholders' funds grew by £128m during the three months to £1.36m. The operating loss per share worked through at 4.6p (4.7p).

Extra capacity helps Bio-Isolates surge

Strong sales of Bipro, a protein-rich powder, enabled Bio-Isolates (Holdings), the whey protein isolation company, to increase profits from £5,229 to £277,829 in 1990.

Substantially increased capacity following the completion of the new production facility at the Le Sueur plant in Minnesota helped the company to lift sales by 77 per cent to £2.95m (£2.28m).

Earnings per share at the company, which is quoted on the USM, came through at 1.7p (0.32p).

FRANCE

June 17 1991

More than half of Europe's top Chief Executives read the FT. If you would like to reach important decision makers across Europe call one of the people listed below or your usual FT representative.



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UK COMPANY NEWS

Return to financial health proving a difficult uphill climb

David Barchard and Michio Nakamoto on the flagging fortunes of Sansui, the Japanese electronics subsidiary of Polly Peck

WHEN POLLY Peck International announced in October 1989 that it was buying Sansui, the Japanese electronics group, the move seemed like a brilliant coup.

But when creditors of the collapsed fruit and electronics group meet at Alexandra Palace tomorrow, few tasks are likely to be harder than evaluating the future worth of its Japanese subsidiary.

Polly Peck owns 72 per cent of Sansui's shares on the Tokyo stock exchange, where they have been languishing at around ¥620, far below the ¥1,270 they touched after the takeover.

But under Polly Peck's ownership its fortunes have continued to flag. Four years of losses were reported, including an operating loss of ¥4.8bn on sales of ¥21.1bn in the year to October 1989, the last year for which full year results have been published. In the nine months to last December Sansui reported a loss of ¥1.7bn on sales of ¥16.3bn, after a change in its year-end and a reconstitution of the company which consolidated some subsidiaries.

To staunch its losses, Sansui's management has tried various remedies. They have cut costs in Japan, sold real estate and shifted production to Taiwan. They have been diversifying into new businesses such as car audio and musical equipment.

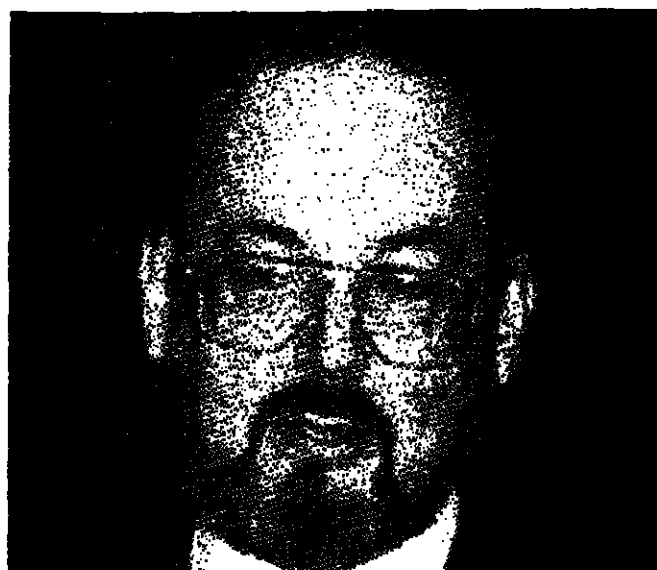
At the same time, Sansui has changed its profile. Last year it began producing video recorders and Mr Koichi Enomoto, business general manager in Tokyo, is hopeful that sales in 1991 will grow ¥10bn this year, rising to ¥15bn in 1992.

"We are diversifying our product line in Japan from hi-fi equipment, which we have always been in, to general audio, portable players, telephone sets, and TV and computer displays," says Mr Enomoto.

For the 12 months to December this year the group is forecasting profits of ¥800m on turnover of ¥35bn.

The return to financial health is proving a difficult uphill climb for the company, which once enjoyed international acclaim for its high quality audio equipment.

Set up in the late 1940s by



Norbert Wirsching: declined to comment on his resignation

Mr Kosaku Kikuchi, Sansui's early years as an electronics and audio producer gave it an internationally-known brand name and a string of small subsidiaries across the world.

The four-year run of losses meant that without an outside

rescuer, Sansui faced an increasingly bleak future with the patience of its banks steadily wearing thinner.

Its problems had several different roots, some going back many years. One was that Sansui had been hard hit by the

appreciation of the Yen against the US dollar after 1983, pushing up the price of its goods in US and European markets.

"We faced lost sales and shrinking markets," explains Mr Enomoto. Other factors involved in Sansui's problems included a legacy of difficulties with left wing unions from the 1970s and a delay in shifting production overseas when its rivals were doing so.

The deficit was financed by five Japanese banks, led by the Bank of Tokyo. By the time Polly Peck arrived on the scene, the deficit had reached ¥20bn, while total borrowing for the group was about ¥35bn.

By 1989, after four years of losses, a purchase by a foreign company was viewed both by Sansui and its creditors as virtually the last hope for the group.

Then Polly Peck International emerged from a number of possible foreign buyers. Negotiations were conducted by Mr Norbert Wirsching, the Polly Peck director responsible for electronics.

The tie-up with Capetronic and Polly Peck promised both a stream of dividend payments

to help pay off the group's debts, and a link with an aggressively managed international electronics group.

The takeover was announced in October 1989 after talks lasting nearly seven months. The deal was the first foreign takeover of a Japanese company and was announced by a triumphant Mr Nadir to a press conference of 200 journalists. The Ministry of International Trade and Industry and the Ministry of Finance both issued welcome messages.

Polly Peck aimed to link Sansui to its existing electronics operation, Capetronic, in Taiwan. An initial ¥15.8bn, the amount paid by Polly Peck, was injected into Sansui and a shake-up of its upper management began.

Eleven new directors from Polly Peck were appointed to the Sansui board, headed by Mr Wirsching. The most important change of all until July 1990, when Capetronic formally became a Sansui subsidiary with Polly Peck's stake rising from 51 per cent to 72 per cent.

Today - after Capetronic, PPT's older electronics business in the Far East and Imperial in

Milan have been merged into it - the group has 6,000 employees with two plants in Japan, three in Taiwan, one in Hong Kong, one in Malaysia, one in the US, and an Italian subsidiary, Imperial, based in Milan.

Japanese specialist audio makers were forced in the 1980s to come to terms with the difficulty of surviving as specialist makers. Most have long since joined larger groups.

Having been one of the few specialist audio makers that remained independent and specialist, Sansui is having to enter the race to compete as a diversified audio-visual company in areas, such as VCRs and laser discs, where its competitors have a substantial lead.

Mr Enomoto believes the Polly Peck deal can benefit it through the complementary strengths of Vestel and Sansui for example. Vestel made small TV screens to supply to Brazil, Sansui's Italian offshoot, while Imperial can supply large screens to Vestel. He believes that the linkage stimulated increased production for both companies.

Europe appears to be a main

target in its strategy for survival in this field. The company announced that it is planning to increase VCR output fourfold, for sale mainly to eastern Europe.

The view among electronics analysts is that while the market is highly competitive there is considerable area for growth in the European VCR market.

While prospects look better than they have for some time, Sansui's bid for survival depends to largely on keeping the overall formula intact.

On May 10 Mr Norbert Wirsching, resigned from the Polly Peck board of which he had been a member since October 1989.

Contacted in New York this week he declined to comment on his resignation. He appears to have been the driving force behind the growth of Capetronic and the link up with Sansui. He was added to the uncertainties surrounding the future of the group.

In Tokyo, there is considerable scepticism about the Administrator's plans for a reconstituted group. The whisper there is that the search is once again on for a buyer.



SANDOZ LTD, Basle

Capital increase 1991

Subscription offer

The Ordinary General Meeting of Shareholders of SANDOZ LTD held on May 15th, 1991 passed a proposal of the Board of Directors as follows:

1. Increase in the share capital of SANDOZ LTD by Sfr. 329 623 300 from Sfr. 299 657 500 to Sfr. 629 280 800 through and increase in the nominal value of the existing registered and bearer shares by Sfr. 250 each from Sfr. 250 to Sfr. 500, followed immediately by a split of each registered and bearer share with a nominal value of Sfr. 500 into five registered or bearer shares respectively with a nominal value of Sfr. 100 each,

in conjunction with the issue of 260 829 new registered shares and 38 829 new bearer shares with a nominal value of Sfr. 100 each, which are offered to existing shareholders for subscription.

2. Increase in the participation certificate capital of SANDOZ LTD by Sfr. 71 785 400 from Sfr. 65 259 400 to Sfr. 137 044 800 through an increase in the nominal value of the existing participation certificate by Sfr. 50 from Sfr. 50 to Sfr. 100,

in conjunction with the issue of 65 260 new participation certificates with a nominal value of Sfr. 100 each, which are offered to existing holders of participation certificates for subscription.

A syndicate of banks led by Credit Suisse, Zurich, and also including Union Bank of Switzerland, Zurich, Swiss Bank Corporation, Basle, Bank J. Vontobel & Co. Ltd., Zurich, Bank Sarasin & Cie., Basle, Lombard, Odier & Cie., Geneva, Fictel & Cie., Geneva, has firmly underwritten

260 829 new registered shares with a nominal value of Sfr. 100 each,

38 829 new bearer shares with a nominal value of Sfr. 100 each,

bearing coupons no. 1 ff., and

65 260 new participation certificates with a nominal value of Sfr. 100 each,

bearing coupons no. 1 ff.

with entitlement to dividends as from January 1st, 1991,

and hereby offer the said shares and participation certificates to the present shareholders and holders of participation certificates for subscription during the period from

May 23rd to June 5th, 1991, noon

on the following terms:

1. Subscription ratio

- 1 new registered share with a nominal value of Sfr. 100 for every 4 existing registered shares with a nominal value of Sfr. 250 each (before split)
- 1 new bearer share with a nominal value of Sfr. 100 for every 4 existing bearer shares with a nominal value of Sfr. 250 each (before split)
- 1 new participation certificate with a nominal value of Sfr. 100 for every 20 existing participation certificates with a nominal value of Sfr. 50 each.

2. Subscription price

- Sfr. 1 100.- net for each new registered or bearer share with a nominal value of Sfr. 100, i.e. Sfr. 100 nominal value of the new share plus Sfr. 1 000 increase in nominal value (4 x Sfr. 250 for 4 existing registered or bearer shares, before split).
- Sfr. 1 100.- net for each new participation certificate with a nominal value of Sfr. 100, i.e. Sfr. 100 nominal value of the new participation certificate plus Sfr. 1 000 increase in nominal value (20 x Sfr. 50 for 20 existing participation certificates).

Federal Stamp Duty at 3% will be borne by SANDOZ LTD.

3. Exercise of subscription rights

Subscription rights are exercised upon presentation of the appropriate subscription right certificate for registered shares and of coupon no. 59 for bearer shares and participation certificates, using the appropriate subscription form.

Subscription rights from the different categories of securities cannot be combined.

The banks are willing to organize the buying and selling of subscription rights. These will be traded between May 23rd and June 4th 1991 at the stock exchanges of Zurich, Basle and Geneva on the basis before split.

The Company will send the subscription right certificates and the subscription forms directly to holders of registered shares who keep their shares at home, while the other certificates and forms will be sent to the depository banks concerned.

4. Entry in Shareholders' Register

In accordance with the already published new practice of SANDOZ LTD Executive Board, for this capital increase Swiss citizens and foreigners are entered in the shareholders' register, although the Executive Board may refuse such entry for the reasons mentioned in article 5 of its by-law, in particular no single shareholder or group of shareholders may acquire more than 2 per cent of the registered share capital. The holdings of Swiss investment funds, are entered at a ratio of one new share per 4 shares of existing entered holdings. When rounding up the number of subscription rights held, Swiss investment funds may buy a maximum of 3 additional subscription rights.

5. Payment

The payment for the new securities must be made as per June 20th, 1991.

May 23th 1991

Credit Suisse

Union Bank of Switzerland

Bank J. Vontobel & Co. Ltd

Lombard, Odier & Cie

Swiss Bank Corporation

Bank Sarasin & Cie

Pictel & Cie

6. Delivery of the new securities

The new securities will be delivered as soon as possible.

7. Restriction of the offering

The offering is not being made in the United States and offering materials with respect to the offering may not be distributed or sent into the United States. The rights described herein may be exercised only outside the United States.

Exchange of securities

(Registered shares, bearer shares and participation certificates)

As a result of the capital restructuring decided upon at the 1991 Ordinary General Meeting of SANDOZ LTD (increase in nominal value of shares and participation certificates and split of shares), the existing securities with the old nominal value have to be exchanged for new securities with a new nominal value. The banks undersigned below will exchange the existing registered shares, bearer shares and participation certificates as follows:

1. Exchange ratio

Registered shares

- 1 existing registered share of SANDOZ LTD with a nominal value of Sfr. 250, certificate without coupons, will be exchanged for
- 5 new registered shares of SANDOZ LTD with a nominal value of Sfr. 100, certificate without coupons

Bearer shares

- 1 existing bearer share of SANDOZ LTD with a nominal value of Sfr. 250, with coupons no. 60 ff. and renewal slip, will be exchanged for
- 5 new bearer shares of SANDOZ LTD with a nominal value of Sfr. 100, with coupons no. 1 ff.

Participation certificates

- 1 existing participation certificate of SANDOZ LTD with a nominal value of Sfr. 50, with coupons no. 60 ff. and renewal slip, will be exchanged for
- 1 new participation certificate of SANDOZ LTD with a nominal value of Sfr. 100, with coupons no. 1 ff.

2. Commencement of exchange

The exchange of securities will commence on May 23rd, 1991. As from August 30th, 1991 only the new securities will be acceptable as good delivery on the stock exchanges.

3. Cancellation and recommencement of trading

Official trading in

- registered shares of SANDOZ LTD with a nominal value of Sfr. 250
- bearer shares of SANDOZ LTD with a nominal value of Sfr. 250 and
- participation certificates of SANDOZ LTD with a nominal value of Sfr. 50

will continue until Wednesday, May 22nd, 1991; trading shall cease on all stock exchanges as from Thursday, May 23rd, 1991.

From Thursday, May 23rd, 1991, only the following will be officially traded:

- registered shares of SANDOZ LTD with a nominal value of Sfr. 100
- bearer shares of SANDOZ LTD with a nominal value of Sfr. 100 and
- participation certificates of SANDOZ LTD with a nominal value of Sfr. 100

4. Listing

The listing of the new registered shares, bearer shares and participation certificates on the Zurich, Basle and Geneva stock exchanges has been requested and approved as from May 23rd, 1991.

5. Exchange agents

The following banks will act as exchange agents.

Listing numbers	old	new
Registered shares (nom. value Sfr. 250)	226 328	
Bearer shares (nom. value Sfr. 250)	226 332	
Participation certificates (nom. value Sfr. 50)	226 335	
Registered shares (nom. value Sfr. 100)		226 329
Bearer Shares (nom. value Sfr. 100)		226 333
Participation certificates (nom. value Sfr. 100)		226 336

For further information regarding SANDOZ LTD or the above mentioned transactions please refer to the prospectus in German, English and French which is obtainable at the banks.

NEWS DIGEST

Baggeridge Brick dips to £1.07m

BAGGERIDGE Brick reported a slump in pre-tax profit from £2.58m to £1.07m in the half year ended March 31 1991. The interim dividend is maintained at 0.75p.

The group was hit by the recession in the construction industry and also by the seasonal closure of construction sites at Christmas being aggravated by adverse weather in the following two months.

Turnover fell from £15.92m to £13.26m. Sales volume was only 7 per cent behind while market share continued to improve. However, price competition and reduced demand meant that operating profit from brickmaking fell 25 per cent to £1.7m.

Lower profits of £193,000 (£1.03m) in landsource were expected as there was an exceptional receipt last time.

Directors were "in no doubt" that the second half would be arduous. Unless production nationally was brought into line with sales volume there would be continuing downward pressure on prices. Earnings per share for the period were 1.79p (4.25p).

Further downturn at Chamberlin & Hill

Further downturn in trading conditions at Chamberlin & Hill resulted in a 32 per cent fall in taxable profits, from £129.27m to £86.77m. Directors said that they expected a satisfactory outcome in the present year in the absence of unforeseen circumstances.

Sales were down 5 per cent to £19.47m (£20.57m). Directors said the decline was felt most by the two businesses involved in conduit fitting and supplying components to the electrical installations markets. A cost reduction programme had been undertaken based on moving both businesses to one site. Costs of the reorganisation, amounting to £100,000 had been taken against taxable profits.

The final dividend is 4p for an unchanged total of 5.75p, on earnings per share of 16.64p (23.41p).

The new financial year had started with a lower level of activity than in the comparable period.

Ferry Pickering edges higher

Taxable profits of Ferry Pickering, the carton manufacturer and printer, edged ahead from £1.16m to £1.2m for the half year to February 28. Turnover expanded by £1.22m to £15.12m. Earnings worked through at 6.1p (6.07p) after tax of £385,000 (£347,000). As predicted, the tax charge rose to 32 (29.5) per cent. The interim dividend is a same-again 2.1p.

Administrators for Westerly Yachts

Westerly, the West Midlands-based boat builder and shoe manufacturer which last week announced that it was closing down yacht production at its Westerly Yachts subsidiary, said yesterday that bankers had demanded an immediate repayment of the offshoot's overdraft amounting to some £2.3m.

In the circumstances, directors requested its bankers to appoint administrative receivers to Westerly Yachts. For 1990 Westerly Yachts had turnover of £12.1m but incurred trading losses of £364,000 on capital employed of £4.26m.

Directors of Westerly said the remaining businesses within the group were trading satisfactorily. They added that

they were in discussions with the group's bankers with a view to securing support for the financing of the remaining subsidiaries on an ongoing basis.

Whessoe rises 14% to £3m

Whessoe, the project management, engineering services and instrumentation and control group, returned profits of £3.09m pre-tax for the half year ended March 30.

The 14 per cent improvement over last time's £2.71m was struck on the back of a 12 per cent rise in turnover to £25.21m.

Mr George Duncan, chairman, said that the increase in profits was achieved in the face of difficult trading conditions in the UK and abroad. He added that there was currently "little evidence" of any improvement in the economic environment.

The interim dividend is stepped up to 2p (1.75p) from earnings of 10.9p (9.6p).

Printech moving to main market

Printech International, a Dublin-based computer documentation company, is moving from the Unlisted Securities Market to the main market. Dealings should start in Dublin on Monday May 27 and in London on the following day.

The company joined the USM in December 1987 and in 1990 reported pre-tax profits of £23.27m (£2.98m) on turnover of £129.27m. Directors said that they expected a satisfactory outcome in the present year in the absence of unforeseen circumstances.

Dunedin Worldwide asset value rises

Dunedin Worldwide Investment Trust reported a rise to £76.9p in net asset value per share at April 30 1991, compared with 58.7p at the end of the previous first half and 57.4p at the end of the year to October 30.

The interim dividend is unchanged at 2.4p on earnings per share of 4.17p (4.3p). Directors said the final dividend would be maintained at 6.6p.

Minstergate jumps to £1.32m

Interest received of £1.42m against £927,000 allowed restructured Minstergate to announce a jump from £548,000 to £1.32m in pre-tax profits for the six months to February 28. The company's main activities now comprise property management and development, together with one manufacturing subsidiary. Turnover fell from £13.45m to £1.33m, reflecting the effect of the disposal in manufacturing together with insignificant property development sales.

Losses on trading activities were cut from £433,000 to £172,000 due to the sale of loss-making subsidiaries. Several offers are being considered in the property development subsidiaries. Earnings per share improved from 8.86p to 36.43p.

Archimedes Inv net assets ahead

Archimedes Investment Trust reported an increase to 577.03p in net asset value per capital share at end-April 1991, compared with 523.15p a year earlier.

Net revenue for the six months to April 30 increased by 26 per cent to £149,000 (£118,000) for earnings per income share of 12.16p (9.67p). A first interim dividend of 9p (7.25p) is declared.

TECHNOLOGY

Charles Batchelor continues a series on innovation in the recession by examining the factors which influence R&D spending among small companies

A restructure of priorities

What has been the trend over the past 12 months (expected trends for the next 12 months) in current expenditure in the following areas?				
	UP	DOWN	SAME	N/A
R & D (products)	47 (40)	12 (8)	26 (38)	15 (14)
R & D (processes)	33 (32)	10 (8)	36 (40)	21 (20)
Licensing of other inventions	3 (7)	1 (2)	30 (28)	66 (64)
Services of consultants	34 (10)	18 (29)	40 (49)	13 (12)
Joint ventures or collaboration with UK companies	8 (18)	2 (2)	31 (21)	59 (58)
Joint ventures or collaboration with overseas companies	19 (40)	1 (1)	34 (20)	46 (39)

Source: CBI Innovation Trends



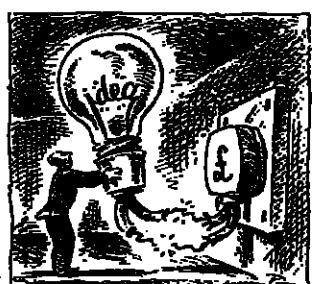
Although Paul de la Pena may be gloomy about prospects for R&D in the UK, smaller firms generally have remained remarkably positive about innovation spending, according to the CBI/NatWest survey.

Fewer manufacturing companies (employing 50-199 people) expect to increase R&D product spending next year but in both 1990 and 1991 companies increasing spending in this area outnumber those reducing expenditure. Some 44 per cent of companies surveyed expected total innovation spending to rise this year compared with 20 per cent which expected a fall. In 1990 42 per cent increased spending.

Within this overall spend, the outlay on licensing other companies' inventions and on joint ventures or collaboration with UK and overseas partners will rise quite sharply. Like Pena companies are learning to spread the innovation burden.

Further evidence that overall levels of innovation spend-

ing are not being cut comes from organisations such as Inventlink, of London, which matches inventors to companies seeking new products. Interest in new products on the part of companies both large and small is higher now than it



was a year ago, reports Richard Paine, chairman. "Companies are looking for products to come out of the recession with," he adds.

Many companies appear to be taking a long-term view, protecting their innovation

spend while cutting back in other areas. Shelbourne Reynolds, a Bury St Edmunds-based agricultural engineering company, has reduced overhead spending by £200,000 after a thorough review, according to Keith Shelbourne, chairman and managing director. Shelbourne employs 100 people and expects sales of £4m this year.

A switch to exports and away from the depressed UK market meant the company was able to reduce its UK sales force from three to two; insurance cover was reviewed and reduced; and a reorganisation of the factory lay-out allowed parts of the building to be let.

"If anything our commitment to R&D is greater today," says Keith Shelbourne. The bulk of the company's innovation budget is currently allocated to developing a grain stripper which speeds up the harvesting process. Worldwide demand for the stripper has taken off and for the first time in its 19-year history the com-

pany is on 24-hour working. But getting this far nearly pushed the company under.

Development costs of the stripper were four times higher than expected; four years ago Shelbourne made its first-ever loss; and Keith Shelbourne was forced to sell off a 30 per cent stake in the company to avoid going into liquidation. "We acted three years ago and that is paying off today."

Innovation spending is now going into refining the basic design of the stripper to make it more reliable and into making engineering changes so that it can be made more easily in volume. Improving on existing products rather than launching off into new directions is a tactic which is being adopted by smaller companies.

Loctronic Graders, an Essex-based manufacturer of equipment for sorting potatoes, is concentrating on changes to double the speed of its equipment. "The research work we are doing was initiated two to three years ago," says Mick Cowlin, chairman of the £1.25m turnover company. "We have to work this through before we think about something else."

Part of the funding for this project is being provided by the government under its Link collaborative research initiative. Loctronic has teamed up with the Silsoe Research Institute in Bedfordshire on a two-year project valued at £300,000. Like many small companies Loctronic has been forced to adapt its innovation policies to changes in government support programmes. Link funds are intended to go to strategic research into technologies for future commercial products and not for highly specific product-oriented projects.

This move away from near-market finance and the longer-term nature of projects means small companies must take a deep breath when embarking on government-funded research, says Cowlin. For a company which has made extensive use of government finance - £1m over the past 10 years - changes in government innovation policies can have a considerable impact.

As Pena, Shelbourne and Loctronic illustrate, innovation is a complex issue for the smaller company. Government policy, changing management priorities and a company's own business cycle can all influence spending at least as much as external economic factors.

The final article in the series, on the agenda for innovation policy in the UK, will appear next week.

Fresh flow of ideas to fuel the 'think tank'

Andrew Fisher visits BMW Technik, which seeks to stimulate creativity in automobile design

BMW's Z1 sports car is sleek, luxurious - and expensive. In Germany, it costs DM89,000 (£30,000) and the Munich company only expected to produce around 5,000. Since the car's introduction late in 1988, however, nearly 8,000 have been made. Flaming red is the most popular colour and the most appropriate for a car of such flamboyant glamour.

Soon, BMW will stop making the car. The market, after all, is extremely limited compared with that for its basic models. But for BMW the significance of the Z1 goes far beyond the life of the car itself.

For the Z1 did not come roaring out of the company's normal research and development activities. It emerged from a separate unit formed with the sole purpose of giving people time to think, work, and create without the normal constraints associated with turning out a production model.

This subsidiary is called BMW Technik GmbH and it was founded in 1985 as an experiment. BMW reckons it is unique, though other companies have their own design studios. Its staff of 120 people is far smaller than BMW's big research and development department, which has 5,000 employees. "We act as a think tank that produces hardware," says Klaus Faust, the head of BMW Technik, which operates from its own building near BMW's headquarters.

Nobody stays at the company for more than five years, the idea being to maintain a fresh creative atmosphere. Most of the designers, engineers, and other staff come from within the group, but BMW Technik also takes on experts from outside when necessary. Its present ranks include people from Austria, the UK, Denmark, the Netherlands, and the US.

How did the Z1 come about? It did not just evolve by accident, says Faust. "We wanted a successful project to motivate our employees. Building a car was the best way to do this. So we tried to develop a fun car that contained new technology."

The result was a vehicle with a body of light, resilient, and recyclable thermoplastic, developed by General Electric of the US; plastic is not cheaper than metal but it is easier to shape, especially into sporty curves. The Z1's doors are electronically powered to move up and down rather than swing out, and its advanced rear axle system is now used on the latest generation of its small 3-series model.

It took one-and-a-half years from the first designs on paper to production of the first Z1 prototype. Today, Faust says, BMW Technik can come up with a complete concept car in a year.

There was also an off-road design of the Z1, but this was not put into production.

The success of the Z1 meant that BMW Technik became more than just an experiment. Today, it is working on a variety of projects. It tends to have two big projects going at once - which involve whole vehicles - and about 10 smaller ones.

Faust is cagey about giving too much away on its present work. One idea is to come up with a method of darkening car window panes by electronic controls. "Our work can cover any aspect of the car, whether it is air-conditioning, the engine or the body."

BMW Technik carries out external work, too. It has made studies for German Federal Railways on new carriages - these were not implemented - and tried to develop a futuristic design for the humble motor-scooter. Although the company was set up so people could develop their ideas in a free-wheeling, informal environment, it has a formal structure to ensure that projects do not simply lead to dead ends.

Eight divisions cover design, bodywork, propulsion, the engine, aerodynamics, materials, electronics and the company's workshop. These are subject to financial and project co-ordination controls.

Explaining BMW Technik's risk-oriented approach, Faust says: "Our aim is that roughly a third of our project ideas should be followed up further and end up in the car in some way; a third should at least provide research impulses; and a third can be dropped as being too risky."

To help stimulate the right climate, BMW Technik has flexible working arrangements allowing staff some freedom to choose their own working hours. Thus employees can work at weekends and take a weekday or two off, depending on the urgency of the project on which they are working.

There is an overall 40-hour week, but no overtime. People tend to work longer hours anyway, notes Faust, since they become bound up in their projects. There is the additional spur of special payments for successful projects.

The rotation at the company means that around 20 people come and go each year. The idea is to avoid hierarchy and creative staleness. Time at BMW Technik also helps in people's later careers, adds Faust, since it is recognised in the rest of BMW and elsewhere that the unit's purpose is to unlock creative energies and develop an individualistic approach.

It can be fun, too. At a recent staff party the company's advanced wind tunnel - equipped for both aerodynamic and acoustic testing - was used to see which employee had the best windsurfing position.

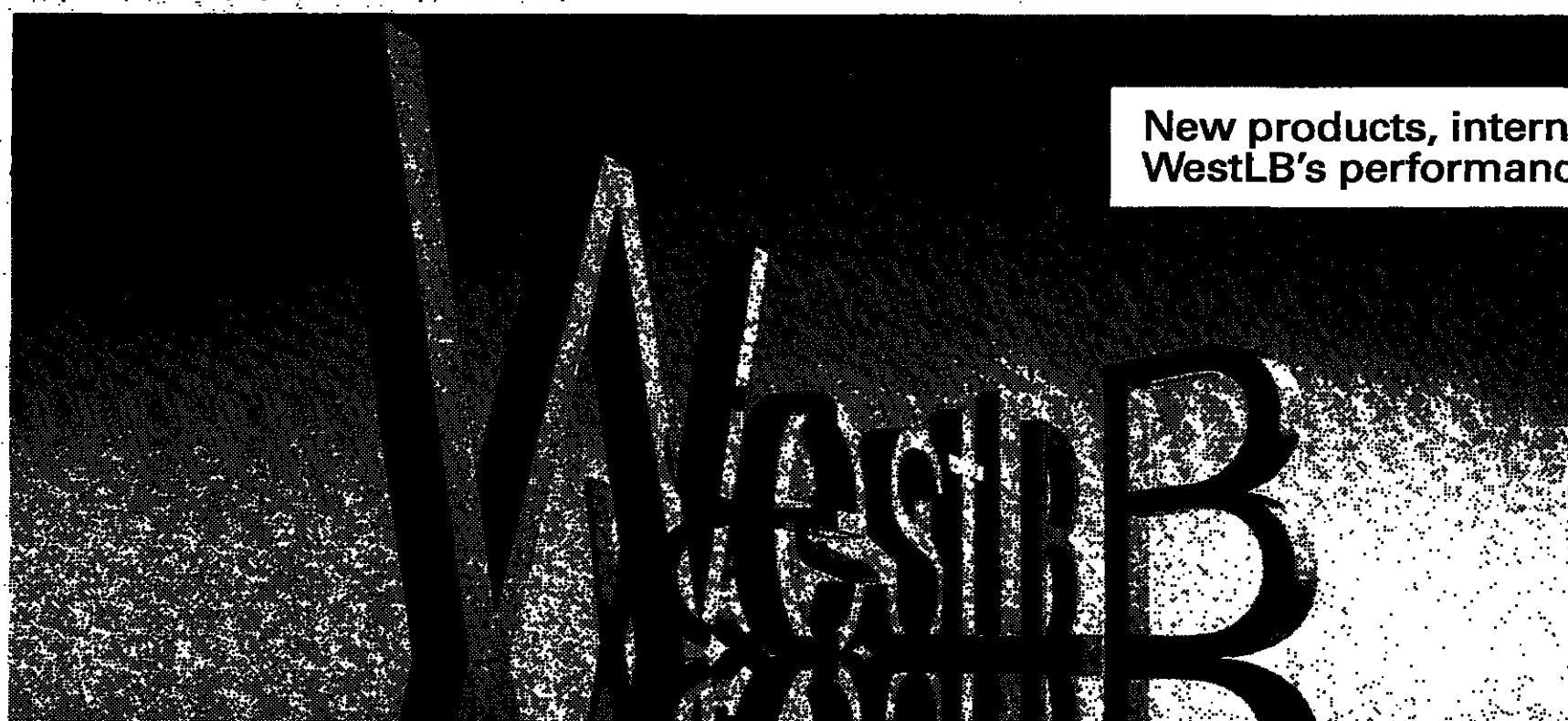


BMW's Z1, the result of a free-wheeling approach

Printech moving main market

Indexed Weekly asset value rise

Monstergate 11.21.22m



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WestLB Group	1990	1989
(DM millions)		
Business volume	250.899	223.620
Total assets	205.205	178.821
Own funds	5.500	5.194
Operating result	800	1.000
Disposable profit	95	90
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PUBLIC WORKS LOAN BOARD RATES

Effective May 22

Term	Rate	Rate	Rate
Over 1 up to 2	11 1/2	11 1/2	10 3/4
Over 2 up to 3	11	11	10 3/4
Over 3 up to 4	10 3/4	10 3/4	10 3/4
Over 4 up to 5	10 3/4	10 3/4	10 3/4
Over 5 up to 6	10 3/4	10 3/4	10 3/4
Over 6 up to 7	10 3/4	10 3/4	10 3/4
Over 7 up to 8	10 3/4	11	11 1/4
Over 8 up to 9	11	11 1/4	11 1/4
Over 9 up to 10	11 1/4	11 1/4	11 1/4
Over 10 up to 15	11 1/4	11 1/4	11 1/4
Over 15 up to 25	11 1/4	11 1/4	11 1/4
Over 25	11 1/4	11 1/4	11 1/4

*Non-quoted loans are 1 per cent higher and non-quoted loans 0.2 per cent higher in each case than quoted loans. Fixed maturities of 10 years. If requested by half-yearly annuity (fixed) equal half-yearly payments to include principal and interest, 8 with half-yearly payments of interest only.

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\$6,180,000.00 Participating Interest due and

payable on May 17, 1991. The annualised per

centage rate is equal to 9% and the amount of

Participating Interest payable on U.S. \$10,000

principal amount of the Bonds is \$200.00.

U.S. Trust Company of California, N.A.,

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May 16, 1991

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As a consequence the coupon pertaining to this interest period will be US\$ 16,468.75

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COMMODITIES AND AGRICULTURE

MacSharry digs in heels as farm ministers try again

By David Gardner in Brussels

EUROPEAN COMMUNITY agriculture ministers last night began work on a new attempt to agree on this year's farm prices, after Mr Ray MacSharry, EC agriculture commissioner, said Brussels was prepared to make no further concessions on its proposals.

Following a sterile debate on the modified proposals - which had been brokered by the Luxembourg presidency of the EC and embodied shifts from the commission proposals of three months ago - Mr MacSharry said he doubted "whether (ministers) would be able to make a decision."

He told ministers: "You can sit here till Doomsday, but the commission is not going to move."

The Irish commissioner's demands followed a series of attempts by France and Ireland to force an increase in the binding guideline on farm spending, set this year at Ecu32.5bn (Ecu38.5bn).

However, officials said he appeared more provoked by the negative reaction to concessions the Commission has made on the cereals, beef and milk regimes, the three areas where EC supply most clearly exceeds demand.

The Luxembourg compromise on the negative reaction to concessions the Commission has made on the cereals, beef and milk regimes, the three areas where EC supply most clearly exceeds demand.

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Drivers act over deaths at Chilean copper mine

By Leslie Crawford in Santiago

TRUCK DRIVERS at Chuquibambilla, the world's biggest open pit copper mine in northern Chile, are staging a go-slow to protest against the dangerous working conditions that caused the deaths of seven miners this year.

The go-slow is causing chaos in an operation that has to remove 600,000 tonnes of rock a day and where traffic is computer-controlled to avoid a delay of even a couple of minutes. Mr Federico Gama, Chuquibambilla's public relations manager, said extraction over the past week had fallen to 540,000 tonnes a day but it was too soon to tell the effects on production.

The drivers, who operate the giant earth-moving trucks, are upset about management's allegation that the pit accidents were caused by their own negligence. Mr Luis Vergara, a union leader at the mine, says that drivers had been urged to work faster to comply with Chuquibambilla's production goals. "It is unfair to blame the drivers for the accidents when they were merely obeying orders," he said.

The labour protest coincides with the start of pay negotiations. Chuquibambilla's 8,500 miners last week lodged a claim for a 9.55 per cent wage increase in wages for the next two years. The Chilean state corporation corporation Codelco, which owns Chuquibambilla, has until the end of May to study the claim and negotiations are expected to begin in June. Pay falls at Codelco's three other mining divisions, Andina, Salvador and El Teniente, will follow soon after.

Meanwhile, Codelco is stepping up prospecting in the hope of finding new deposits to offset declining production at its ageing mines. Codelco's this week announced the discovery of a huge deposit 5km south west of Chuquibambilla. Initial projections show the deposit could rival Chuquibambilla or the La Escondida copper mine in size.

25m cubic metres. To be sustainable only 4.5m cubic metres should be cut annually. WFF has also drawn up a report on the use of ecotourism. These are placed on the agenda of the meeting.

Mr Sullivan said that inadequate forestry conservation supplies have also faded recently, with LME stocks having built up considerably indicating that shipments are arriving in Europe without much delay.

Compiled from Reuters

Plantings, which were delayed in the Delta by heavy rains over the past month and a half, appear to have improved as fields dried out and farmers were able to sow cotton. On the LME nickel market, prices fell despite being technically oversold. Dealers said nickel was falling on fundamental weakness and current labour talks at Inco's Sudbury facilities were not yet cushioning declines. Much of the recent selling has been fund liquidation. Concern over Soviet supplies has also faded recently, with LME stocks having built up considerably indicating that shipments are arriving in Europe without much delay.

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Compiled from Reuters

Peru moves to revive cotton trade

Sally Bowen finds hopes pinned on the coveted Tanguis variety

PERUVIAN COTTON, once the country's principal export, is undergoing its biggest shake-up for years. March trade liberalisation measures and the lifting of export restrictions mean that Tanguis, an internationally coveted variety which until now has been virtually unavailable outside Peru, will be widely exported.

Production, however, is in crisis. A combination of last year's drought, increased terrorist attacks on coastal farms and scarcity of credit means that only 68,000 hectares of Tanguis were planted in Peru this season compared to a "historical" 120,000 ha.

Although this is double the acreage the Peruvian Cotton Board had predicted for this season, production has been maintained at the expense of good agricultural practice. Nearly a quarter of the total area was not cleared and replanted at the end of last season - plants were cut back and allowed to sprout again, with savings on costs but potential difficulties with disinfecting the soil.

In First indications, however, are that the harvest has suffered little, say traders. The Cotton Board estimates Tanguis output this year at about 50,000 tonnes, nearly 40 per cent lower than three years ago. Tanguis accounts for 90 per cent of cotton grown in Peru - the rest is mostly long-staple Pima - and is the variety principally used by Peruvian cotton garment manufacturers. It has a bulk and absorbency which make it

ideal for underwear and sports shirts, the products on which Peru's booming cotton apparel export business is based.

Until government-imposed export restrictions were lifted in March, the local market had first claim on Tanguis. Only small quantities surplus to domestic demand, perhaps 7,000 tonnes a year, were exported under special licence.

However, this year, with the domestic market in recession, traders expect at least half of the season's Tanguis 50,000 tonne crop will go abroad. Leading private exporters will compete for the 40 to 50 per cent market share traditionally held by Enel, the increasingly weakened state food and commodity marketing board.

Tanguis is likely to sell in Europe this year at about \$100 per quintal, according to last year's leading exporter Coral S.A. However, local Peruvian costs to cover transport, customs and re-exporting of bales before shipment, are high.

Cotton exporters receive no tax drawback and bear an additional 5 per cent "temporary" tax on every tonne exported. "Current local costs are abnormal," says Coral's managing director Gonzalo Priale. "A fair price to the Tanguis producer would be around \$70 per quintal. If the exchange rate was not so far out of line."

Producers say they can no longer make money growing cotton. Federico Leon, president of the Peruvian Cotton Board, and himself a grower has 142 hectares in Piura, the

principal cotton-growing region on Peru's north coast. "It's a viable size - you should be able to make money off that," he says.

It is no longer possible. The Cotton Board estimates production costs at \$1,400 per hectare, including pesticides, machinery hire and transport. However, in areas such as Piura, where traditional yields average only ten to twelve quintals per hectare, cotton farming is unprofitable.

This year, "like all other medium-sized farmers in my area, I haven't grown cotton," says Leon. Fifteen hectares are planted "to maintain my property rights and for security reasons. Even if you lose money, you must plant something or landless peasants invade your land and settle on it."

A graver threat than land invasions to more prosperous farmers is terrorism. Both

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LONDON STOCK EXCHANGE

Gains reversed in a gloomy market

CONCERN OVER the recession in the domestic economy depressed the UK stock market yesterday, outweighing any benefits from favourable comments on prospects for inflation and interest rates from the prime minister and from the Halifax, Britain's largest building society. After challenging an important testing level in early trading, both stock futures and underlying equities broke downwards.

Trading volume, as measured by the S&P total, increased and traders claimed to have seen some indications of forced selling by institutions seeking to restore cash ratios. Speculative interest was dampened down by reports from an indecisive meeting between Hanson and ICI, and by selling of Hanson stock yesterday.

Equities opened steadily

Account Dealing Dates			
First Dealing	Apr 28	May 20	Jun 2
Second Dealing	May 10	May 30	Jun 13
Third Dealing	May 17	May 31	Jun 14
Fourth Dealing	May 24	Jun 10	Jun 24

behind Wall Street's firmness overnight and assurances from Mr John Major, the UK prime minister, that future Conservative governments would never allow inflation to surge ahead again.

The blue touch paper, however, was lit when the stock index futures opened and the June contract on the FT-SE index quickly moved to 2,606. The gain in the underlying equity market increased to ten points before it became clear

that neither the future contract nor the stock market could hold its gains.

With investors also discouraged by a new flow of rights issues totalling £200m, led by W.H. Smith, the retailer, which asked for £148m, equities soon turned negative. Official statistics confirmed that gross national product in the UK fell in the first quarter of the year for the third consecutive period.

Economic gloom was fostered by a batch of corporate statements, notably from Land Securities, Britain's largest property group, which cut its net asset valuation substantially in response to the continued depression in demand for business property in the UK.

Nor was the stock market greatly impressed by the first-quarter trading statement from

BAT Industries and, later in the session, there was a sharp fall in Ranks Hovis McDougall following its interim statement. An executive of TSB, the banking group, warned that Britain's recession could drag on into next year.

At its low point, the market was down by 18 points on the Footsie scale before a modest rally, inspired by a similar trend on Wall Street, lifted share prices a shade. The final reading put the FT-SE index at 2,465.9 for a loss of 16.8 on the day. Seagroup reported volume, which took in both retail and intra-market business, increased to 458.4m shares from Tuesday's 424.5m.

The mood was decidedly gloomy at the close. Little encouragement was drawn from the decision by the Halifax to enable its annually rated

home borrowers to benefit from the recent cuts in mortgage rates, although the Halifax managing director expected the next interest rate reduction "within a couple of weeks".

Mr Robin Aspinall, chart strategist at Schroders, the London merchant bank, warned that yesterday's market resembled a classic "topping-out" pattern, suggesting that it could now be threatened by a sizeable downward correction.

Traders noted the absence of follow-through when the FT-SE 2,500 mark was challenged in early trading. Some believe that investment fund managers, needing cash for rights issues, are now reining in their daily operations in the equity market and selling stock where they see an opportunity to take profits.

FINANCIAL TIMES STOCK INDICES

	May 22	May 21	May 20	May 19	May 18	May 17	May 16	May 15	May 14	May 13	May 12	May 11	May 10	May 9	May 8	May 7	May 6	May 5	May 4	May 3	May 2	May 1	Since Completion
Government Secs	84.49	84.37	84.16	84.04	84.24	84.56	85.82	82.17	127.4	127.4	127.4	127.4	127.4	127.4	127.4	127.4	127.4	127.4	127.4	127.4	127.4	127.4	127.4
Fixed Interest	93.49	93.41	93.25	93.51	93.55	87.29	24.84	99.59	106.4	106.4	106.4	106.4	106.4	106.4	106.4	106.4	106.4	106.4	106.4	106.4	106.4	106.4	106.4
Ordinary Shares	1933.4	1942.5	1927.3	1956.2	1935.9	1810.0	167.0	217.5	1028.2	1028.2	1028.2	1028.2	1028.2	1028.2	1028.2	1028.2	1028.2	1028.2	1028.2	1028.2	1028.2	1028.2	1028.2
Gold Mines	195.9	195.2	195.4	195.8	195.2	211.5	14.1	14.1	14.1	14.1	14.1	14.1	14.1	14.1	14.1	14.1	14.1	14.1	14.1	14.1	14.1	14.1	14.1
FT-SE 100 Share	2465.9	2482.7	2466.6	2453.9	2471.9	2237.4	178.7	127.0	732.7	732.7	732.7	732.7	732.7	732.7	732.7	732.7	732.7	732.7	732.7	732.7	732.7	732.7	732.7
FT-SE Euroshare 200	1165.21	1162.66	1154.45	1151.02	1151.25	1151.25	1151.25	1151.25	1151.25	1151.25	1151.25	1151.25	1151.25	1151.25	1151.25	1151.25	1151.25	1151.25	1151.25	1151.25	1151.25	1151.25	1151.25
Ord Div. Yield	4.95	4.93	4.95	4.96	4.94	5.27	10.10	10.10	10.10	10.10	10.10	10.10	10.10	10.10	10.10	10.10	10.10	10.10	10.10	10.10	10.10	10.10	10.10
Earning Yld % (Hull)	8.65	8.64	8.69	8.71	8.65	17.47	17.47	17.47	17.47	17.47	17.47	17.47	17.47	17.47	17.47	17.47	17.47	17.47	17.47	17.47	17.47	17.47	17.47
P/E Ratio (Hull)	14.23	14.30	14.22	14.15	14.27	16.54	16.54	16.54	16.54	16.54	16.54	16.54	16.54	16.54	16.54	16.54	16.54	16.54	16.54	16.54	16.54	16.54	16.54
SEAG 45pm	27.35	26.178	24.575	22.707	20.159	31.298	31.298	31.298	31.298	31.298	31.298	31.298	31.298	31.298	31.298	31.298	31.298	31.298	31.298	31.298	31.298	31.298	31.298
Equity Turnover (m)	23.79	23.79	23.79	23.79	23.79	23.79	23.79	23.79	23.79	23.79	23.79	23.79	23.79	23.79	23.79	23.79	23.79	23.79	23.79	23.79	23.79	23.79	23.79
Equity Bargain	25.526	24.468	22.394	20.032	30.814	30.814	30.814	30.814	30.814	30.814	30.814	30.814	30.814	30.814	30.814	30.814	30.814	30.814	30.814	30.814	30.814	30.814	30.814
Shares Traded (m)	371.5	278.0	400.7	434.1	363.1	363.1	363.1	363.1	363.1	363.1	363.1	363.1	363.1	363.1	363.1	363.1	363.1	363.1	363.1	363.1	363.1	363.1	363.1
Ordinary Share Index, Hourly changes	Day's High 1953.9	Day's Low 1932.5	Day's High 1953.9	Day's Low 1932.5	Day's High 1953.9	Day's Low 1932.5	Day's High 1953.9	Day's Low 1932.5	Day's High 1953.9	Day's Low 1932.5	Day's High 1953.9	Day's Low 1932.5	Day's High 1953.9	Day's Low 1932.5	Day's High 1953.9	Day's Low 1932.5	Day's High 1953.9	Day's Low 1932.5	Day's High 1953.9	Day's Low 1932.5	Day's High 1953.9	Day's Low 1932.5	Day's High 1953.9
FT-SE 100, Hourly changes	Day's High 2482.7	Day's Low 2453.9	Day's High 2482.7	Day's Low 2453.9	Day's High 2482.7	Day's Low 2453.9	Day's High 2482.7	Day's Low 2453.9	Day's High 2482.7	Day's Low 2453.9	Day's High 2482.7	Day's Low 2453.9	Day's High 2482.7	Day's Low 2453.9	Day's High 2482.7	Day's Low 2453.9	Day's High 2482.7	Day's Low 2453.9	Day's High 2482.7	Day's Low 2453.9	Day's High 2482.7	Day's Low 2453.9	Day's High 2482.7
FT-SE Euroshare 200, Hourly changes	Day's High 1167.71	Day's Low 1154.45	Day's High 1167.71	Day's Low 1154.45	Day's High 1167.71	Day's Low 1154.45	Day's High 1167.71	Day's Low 1154.45	Day's High 1167.71	Day's Low 1154.45	Day's High 1167.71	Day's Low 1154.45	Day's High 1167.71	Day's Low 1154.45	Day's High 1167.71	Day's Low 1154.45	Day's High 1167.71	Day's Low 1154.45	Day's High 1167.71	Day's Low 1154.45	Day's High 1167.71	Day's Low 1154.45	Day's High 1167.71

GILT EDGED ACTIVITY

Indices	May 21	May 20
Gilt Edged	59.7	88.0
5-Day Average	94.7	97.0

*SE Activity 1974, 15-16-17-18-19-20-21-22-23-24-25-26-27-28-29-30-31-32-33-34-35-36-37-38-39-40-41-42-43-44-45-46-47-48-49-50-51-52-53-54-55-56-57-58-59-60-61-62-63-64-65-66-67-68-69-70-71-72-73-74-75-76-77-78-79-80-81-82-83-84-85-86-87-88-89-90-91-92-93-94-95-96-97-98-99-100-101-102-103-104-105-106-107-108-109-110-111-112-113-114-115-116-117-118-119-120-121-122-123-124-125-126-127-128-129-130-131-132-133-134-135-136-137-138-139-140-141-142-143-144-145-146-147-148-149-150-151-152-153-154-155-156-157-158-159-160-161-162-163-164-165-166-167-168-169-170-171-172-173-174-175-176-177-178-179-180-181-182-183-184-185-186-187-188-189-190-191-192-193-194-195-196-197-198-199-200-201-202-203-204-205-206-207-208-209-210-211-212-213-214-215-216-217-218-219-220-221-222-223-224-225-226-227-228-229-230-231-232-233-234-235-236-237-238-239-240-241-242-243-244-245-246-247-248-249-250-251-252-253-254-255-256-257-258-259-260-261-262-263-264-265-266-267-268-269-270-271-272-273-274-275-276-277-278-279-280-281-282-283-284-285-286-287-288-289-290-291-292-293-294-295-296-297-298-299-300-301-302-303-304-305-306-307-308-309-310-311-312-313-314-315-316-317-318-319-320-321-322-323-324-325-326-327-328-329-330-331-332-333-334-335-336-337-338-339-340-341-342-343-344-345-346-347-348-349-350-351-352-353-354-355-356-357-358-359-360-361-362-363-364-365-366-367-368-369-370-371-372-373-374-375-376-377-378-379-380-381-382-383-384-385-386-387-388-389-390-391-392-393-394-395-396-397-398-399-400-401-402-403-404-405-406-407-408-409-410-411-412-413-414-415-416-417-418-419-420-421-422-423-424-425-426-427-428-429-430-431-432-433-434-435-436-437-438-439-440-441-442-443-444-445-446-447-448-449-450-451-452-453-454-455-456-457-458-459-460-461-462-463-464-465-466-467-468-469-470-471-472-473-474-475-476-477-478-479-480-481-482-483-484-485-486-487-488-489-490-491-492-493-494-495-496-497-498-499-500-501-502-503-504-505-506-507-508-509-510-511-512-513-514-515-516-517-518-519-520-521-522-523-524-525-526-527-528-529-530-531-532-533-534-535-536-537-538-539-540-541-542-543-544-545-546-547-548-549-550-551-552-553-554-555-556-557-558-559-560-561-562-563-564-565-566-567-568-569-570-571-572-573-574-575-576-577-578-579-580-581-582-583-584-585-586-587-588-589-590-591-592-593-594-595-596-597-598-599-600-601-602-603-604-605-606-607-608-609-610-611-612-613-614-615-616-617-618-619-620-621-622-623-624-625-626-627-628-629-630-631-632-633-634-635-636-637-638-639-640-641-642-643-644-645-646-647-648-649-650-651-652-653-654-655-656-657-658-659-660-661-662-663-664-665-666-667-668-669-670-671-672-673-674-675-676-677-678-679-680-681-682-683-684-685-686-687-688-689-690-691-692-693-694-695-696-697-698-699-700-701-702-703-704-705-706-707-708-709-710-711-712-713-714-715-716-717-718-719-720-721-722-723-724-725-726-727-728-729-730-731-732-733-734-735-736-737-738-739-740-741-742-743-744-745-746-747-748-749-750-751-752-753-754-755-756-757-758-759-760-761-762-763-764-765-766-767-768-769-770-771-772-773-774-775-776-777-778-779-780-781-782-783-784-785-786-787-788-789-790-791-792-793-794-795-796-797-798-799-800-801-802-803-804-805-806-807-808-809-810-811-812-813-814-815-816-817-818-819-820-821-822-823-824-825-826-827-828-829-830-831-832-833-834-835-836-837-838-839-840-841-842-843-844-845-846-847-848-849-850-851-852-853-854-855-856-857-858-859-860-861-862-863-864-865-866-867-868-869-870-871-872-873-874-875-876-877-878-879-880-881-882-883-884-885-886-887-888-889-890-891-892-893-894-895-896-897-898-899-900-901-902-903-904-905-906-907-908-909-910-911-912-913-914-915-916-917-918-919-920-921-922-923-924-925-926-927-928-929-930-931-932-933-934-935-936-937-938-939-940-941-942-943-944-945-946-947-948-949-950-951-952-953-954-955-956-957-958-959-960-961-962-963-964-965-966-967-968-969-970-971-972-973-974-975-976-977-978-979-980-981-982-983-984-985-986-987-988-989-990-991-992-993-994-995-996-997-998-999-1000-1001-1002-1003-1004-1005-1006-1007-1008-1009-1010-1011-1012-1013-1014-1015-1016-1017-1018-1019-1020-1021-1022-1023-1024-1025-1026-1027-1028-1029-1030-1031-1032-1033-1034-1035-1036-1037-1038-1039-1040-1041-1042-1043-1044-1045-1046-1047-1048-1049-1050-1051-1052-1053-1054-1055-1056-1057-1058-1059-1060-1061-1062-1063-1064-1065-1066-1067-1068-1069-1070-1071-1072-1073-1074-1075-1076-1077-1078-1079-1080-1081-1082-1083-1084-1085-1086-1087-1088-1089-1090-1091-1092-1093-1094-1095-1096-1097-1098-1099-1100-1101-1102-1103-1104-1105-1106-1107-1108-1109-1110-1111-1112-1113-1114-1115-1116-1117-1118-1119-1120-1121-1122-1123-1124-1125-1126-1127-1128-1129-1130-1131-1132-1133-1134-1135-1136-1137-1138-1139-1140-1141-1142-1143-1144-1145-1146-1147-1148-1149-1150-1151-1152-1153-1154-1155-1156-1157-1158-1159-1160-1161-1162-1163-1164-1165-1166-1167-1168-1169-1170-1171-1172-1173-1174-1175-1176-1177-1178-1179-1180-1181-1182-1183-1184-1185-1186-1187-1188-1189-1190-1191-1192-1193-1194-1195-1196-1197-1198-1199-1200-1201-1202-1203-1204-1205-1206-1207-1208-1209-1210-1211-1212-1213-1214-1215-1216-1217-1218-1219-1220-1221-1222-1223-1224-1225-1226-1227-1228-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RY AND STORES—Contd	ENGINEERING
1. <u>Engineering</u>	1. <u>Engineering</u>
2. <u>Stores</u>	2. <u>Stores</u>
3. <u>Engineering</u>	3. <u>Engineering</u>
4. <u>Stores</u>	4. <u>Stores</u>
5. <u>Engineering</u>	5. <u>Engineering</u>
6. <u>Stores</u>	6. <u>Stores</u>
7. <u>Engineering</u>	7. <u>Engineering</u>
8. <u>Stores</u>	8. <u>Stores</u>
9. <u>Engineering</u>	9. <u>Engineering</u>
10. <u>Stores</u>	10. <u>Stores</u>
11. <u>Engineering</u>	11. <u>Engineering</u>
12. <u>Stores</u>	12. <u>Stores</u>
13. <u>Engineering</u>	13. <u>Engineering</u>
14. <u>Stores</u>	14. <u>Stores</u>
15. <u>Engineering</u>	15. <u>Engineering</u>
16. <u>Stores</u>	16. <u>Stores</u>
17. <u>Engineering</u>	17. <u>Engineering</u>
18. <u>Stores</u>	18. <u>Stores</u>
19. <u>Engineering</u>	19. <u>Engineering</u>
20. <u>Stores</u>	20. <u>Stores</u>
21. <u>Engineering</u>	21. <u>Engineering</u>
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26. <u>Stores</u>	26. <u>Stores</u>
27. <u>Engineering</u>	27. <u>Engineering</u>
28. <u>Stores</u>	28. <u>Stores</u>
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83. <u>Engineering</u>	83. <u>Engineering</u>
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93. <u>Engineering</u>	93. <u>Engineering</u>
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95. <u>Engineering</u>	95. <u>Engineering</u>
96. <u>Stores</u>	96. <u>Stores</u>
97. <u>Engineering</u>	97. <u>Engineering</u>
98. <u>Stores</u>	98. <u>Stores</u>
99. <u>Engineering</u>	99. <u>Engineering</u>
100. <u>Stores</u>	100. <u>Stores</u>

مكتبة ابن بطوطة

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[illegible][illegible]

1279	1175W/William C.	1280	333.3	2.1	3.6
cover relates to previous dividend or forecast.					
1 Same information in progress					
2 Not applicable					
3 Same information; reduced final and/or reduced earnings indicated					
4 Forecast dividend; cover based on earnings reported by last interim statement					
5 Cover allows for conversion of shares not now representing dividends or ranking only for restricted dividends					
6 Dividend is not expected to be paid; cover based on dividend declared at a future date. No P/E usually provided					
MINES					
Central Rand					
354	144Hewlett Dept. R.	238	4	-	-
355	144Hewlett Dept. R.	238	4	-	-
356	144Hewlett Dept. R.	238	4	-	-
357	144Hewlett Dept. R.	238	4	-	-
358	144Hewlett Dept. R.	238	4	-	-
359	144Hewlett Dept. R.	238	4	-	-
360	144Hewlett Dept. R.	238	4	-	-
361	144Hewlett Dept. R.	238	4	-	-
362	144Hewlett Dept. R.	238	4	-	-
363	144Hewlett Dept. R.	238	4	-	-
364	144Hewlett Dept. R.	238	4	-	-
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367	144Hewlett Dept. R.	238	4	-	-
368	144Hewlett Dept. R.	238	4	-	-
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371	144Hewlett Dept. R.	238	4	-	-
372	144Hewlett Dept. R.	238	4	-	-
373	144Hewlett Dept. R.	238	4	-	-
374	144Hewlett Dept. R.	238	4	-	-
375	144Hewlett Dept. R.	238	4	-	-
376	144Hewlett Dept. R.	238	4	-	-
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448	144Hewlett Dept. R.	238	4	-	-
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450	144Hewlett Dept. R.	238	4	-	-
451	144Hewlett Dept. R.	238	4	-	-
452	144Hewlett Dept. R.	238	4	-	-
453	144Hewlett Dept. R.	238	4	-	-
454	144Hewlett Dept. R.	238	4	-	-
455	144Hewlett Dept. R.	238	4	-	-
456	144Hewlett Dept. R.	238	4	-	-
457	144Hewlett Dept. R.	238	4	-	-
458	144Hewlett Dept. R.	238	4	-	-
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462	144Hewlett Dept. R.	238	4	-	-
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464	144Hewlett Dept. R.	238	4	-	-
465	144Hewlett Dept. R.	238	4	-	-
466	144Hewlett Dept. R.	238	4	-	-
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Australians				P & O Line.....		RTZ.....	
				Pass Dm.....		19	
35	20MACH 50c.....	29	03c	3.6	4.4		
35	10MACH 50c.....	24	013c	0.3			
35	1 1/2MARCH 50c III.....	24					
35	20WHOLEY 50c.....	29					
35	20WHOLEY 50c.....	29	201c	1.6			
35	20MAGNETIC 1 Km.....	29					
35	40MAGNETIC 5L.....	59					
35	35CASH 52.....	59	4	0.44c	0.35		
65	30CENTRAL PACIFIC.....	59	7				

This service is available to passengers whose staterooms are registered in the United Kingdom for a term of £2,750 or more and whose security clearance, subject to the Entry's discretion.

Figure 1. The effect of the number of trials on the number of correct responses. The number of correct responses was significantly higher than the number of incorrect responses in all cases. The number of correct responses was significantly higher than the number of incorrect responses in all cases. The number of correct responses was significantly higher than the number of incorrect responses in all cases.

● Current Unit Trust prices are available on FT Cityline. Calls charged at 45p per minute peak and 34p off peak, inc VAT. To obtain your free Unit Trust Code Booklet ring (071) 925-2725.

Int Comp	Disc. Price	Est Price	Offer Price	+ or -	Yld Gr's
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Capital Assets Unit Test, March 1991		Capital Assets Unit Test, March 1991		Capital Assets Unit Test, March 1991	
Rank	Score	Rank	Score	Rank	Score
1	95.00	101	55.00	201	45.00
2	94.00	102	54.00	202	44.00
3	93.00	103	53.00	203	43.00
4	92.00	104	52.00	204	42.00
5	91.00	105	51.00	205	41.00
6	90.00	106	50.00	206	40.00
7	89.00	107	49.00	207	39.00
8	88.00	108	48.00	208	38.00
9	87.00	109	47.00	209	37.00
10	86.00	110	46.00	210	36.00
11	85.00	111	45.00	211	35.00
12	84.00	112	44.00	212	34.00
13	83.00	113	43.00	213	33.00
14	82.00	114	42.00	214	32.00
15	81.00	115	41.00	215	31.00
16	80.00	116	40.00	216	30.00
17	79.00	117	39.00	217	29.00
18	78.00	118	38.00	218	28.00
19	77.00	119	37.00	219	27.00
20	76.00	120	36.00	220	26.00
21	75.00	121	35.00	221	25.00
22	74.00	122	34.00	222	24.00
23	73.00	123	33.00	223	23.00
24	72.00	124	32.00	224	22.00
25	71.00	125	31.00	225	21.00
26	70.00	126	30.00	226	20.00
27	69.00	127	29.00	227	19.00
28	68.00	128	28.00	228	18.00
29	67.00	129	27.00	229	17.00
30	66.00	130	26.00	230	16.00
31	65.00	131	25.00	231	15.00
32	64.00	132	24.00	232	14.00
33	63.00	133	23.00	233	13.00
34	62.00	134	22.00	234	12.00
35	61.00	135	21.00	235	11.00
36	60.00	136	20.00	236	10.00
37	59.00	137	19.00	237	9.00
38	58.00	138	18.00	238	8.00
39	57.00	139	17.00	239	7.00
40	56.00	140	16.00	240	6.00
41	55.00	141	15.00	241	5.00
42	54.00	142	14.00	242	4.00
43	53.00	143	13.00	243	3.00
44	52.00	144	12.00	244	2.00
45	51.00	145	11.00	245	1.00
46	50.00	146	10.00	246	0.00
47	49.00	147	9.00	247	0.00
48	48.00	148	8.00	248	0.00
49	47.00	149	7.00	249	0.00
50	46.00	150	6.00	250	0.00
51	45.00	151	5.00	251	0.00
52	44.00	152	4.00	252	0.00
53	43.00	153	3.00	253	0.00
54	42.00	154	2.00	254	0.00
55	41.00	155	1.00	255	0.00
56	40.00	156	0.00	256	0.00
57	39.00	157	0.00	257	0.00
58	38.00	158	0.00	258	0.00
59	37.00	159	0.00	259	0.00
60	36.00	160	0.00	260	0.00
61	35.00	161	0.00	261	

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UK in Germany	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02	31.02
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CA Unit Trust Hedges Ltd CLOOHN				
14 Pacific Coast, Edinburgh		031 720 7944		
Canada	17.14	17.76	18.60	19.21
USA	17.14	17.76	18.60	19.21
Great Britain	17.14	17.76	18.60	19.21
Germany	17.14	17.76	18.60	19.21
France	17.14	17.76	18.60	19.21
Switzerland	17.14	17.76	18.60	19.21
Italy	17.14	17.76	18.60	19.21
Spain	17.14	17.76	18.60	19.21
Portugal	17.14	17.76	18.60	19.21
Belgium	17.14	17.76	18.60	19.21
Netherlands	17.14	17.76	18.60	19.21
Austria	17.14	17.76	18.60	19.21
Sweden	17.14	17.76	18.60	19.21
Denmark	17.14	17.76	18.60	19.21
Finland	17.14	17.76	18.60	19.21
Norway	17.14	17.76	18.60	19.21
Poland	17.14	17.76	18.60	19.21
Czech Republic	17.14	17.76	18.60	19.21
Slovak Republic	17.14	17.76	18.60	19.21
Hungary	17.14	17.76	18.60	19.21
Romania	17.14	17.76	18.60	19.21
Bulgaria	17.14	17.76	18.60	19.21
Greece	17.14	17.76	18.60	19.21
Turkey	17.14	17.76	18.60	19.21
Israel	17.14	17.76	18.60	19.21
Japan	17.14	17.76	18.60	19.21
South Korea	17.14	17.76	18.60	19.21
China	17.14	17.76	18.60	19.21
Hong Kong	17.14	17.76	18.60	19.21
Taiwan	17.14	17.76	18.60	19.21
Singapore	17.14	17.76	18.60	19.21
Malaysia	17.14	17.76	18.60	19.21
Indonesia	17.14	17.76	18.60	19.21
Philippines	17.14	17.76	18.60	19.21
Thailand	17.14	17.76	18.60	19.21
Vietnam	17.14	17.76	18.60	19.21
Laos	17.14	17.76	18.60	19.21
Cambodia	17.14	17.76	18.60	19.21
Myanmar	17.14	17.76	18.60	19.21
Burma	17.14	17.76	18.60	19.21
Sri Lanka	17.14	17.76	18.60	19.21
Maldives	17.14	17.76	18.60	19.21
Bhutan	17.14	17.76	18.60	19.21
Nepal	17.14	17.76	18.60	19.21
Pakistan	17.14	17.76	18.60	19.21
Afghanistan	17.14	17.76	18.60	19.21
Iran	17.14	17.76	18.60	19.21
Iraq	17.14	17.76	18.60	19.21
Saudi Arabia	17.14	17.76	18.60	19.21
UAE	17.14	17.76	18.60	19.21
Qatar	17.14	17.76	18.60	19.21
Bahrain	17.14	17.76	18.60	19.21
Oman	17.14	17.76	18.60	19.21
Yemen	17.14	17.76	18.60	19.21
Somalia	17.14	17.76	18.60	19.21
Ethiopia	17.14	17.76	18.60	19.21
DRC	17.14	17.76	18.60	19.21
Congo	17.14	17.76	18.60	19.21
Zambia	17.14	17.76	18.60	19.21
Botswana	17.14	17.76	18.60	19.21
Namibia	17.14	17.76	18.60	19.21
South Africa	17.14	17.76	18.60	19.21
Mozambique	17.14	17.76	18.60	19.21
Swaziland	17.14	17.76	18.60	19.21
Lesotho	17.14	17.76	18.60	19.21
Madagascar	17.14	17.76	18.60	19.21
Reunion	17.14	17.76	18.60	19.21
Mayotte	17.14	17.76	18.60	19.21
French Polynesia	17.14	17.76	18.60	19.21

GT Unit Managers Ltd CLOOHN				
5th Floor, 6 Darnley St, London EC2M 4YL				
USA	17.14	17.76	18.60	19.21
UK Central Office	17.14	17.76	18.60	19.21
UK Regional Office	17.14	17.76	18.60	19.21
Germany	17.14	17.76	18.60	19.21
France	17.14	17.76	18.60	19.21
Switzerland	17.14	17.76	18.60	19.21
Italy	17.14	17.76	18.60	19.21
Spain	17.14	17.76	18.60	19.21
Portugal	17.14	17.76	18.60	19.21
Belgium	17.14	17.76	18.60	19.21
Netherlands	17.14	17.76	18.60	19.21
Austria	17.14	17.76	18.60	19.21
Sweden	17.14	17.76	18.60	19.21
Denmark	17.14	17.76	18.60	19.21
Finland	17.14	17.76	18.60	19.21
Norway	17.14	17.76	18.60	19.21
Poland	17.14	17.76	18.60	19.21
Czech Republic	17.14	17.76	18.60	19.21
Slovak Republic	17.14	17.76	18.60	19.21
Hungary	17.14	17.76	18.60	19.21
Romania	17.14	17.76	18.60	19.21
Bulgaria	17.14	17.76	18.60	19.21
Greece	17.14	17.76	18.60	19.21
Turkey	17.14	17.76	18.60	19.21
Israel	17.14	17.76	18.60	19.21
Japan	17.14	17.76	18.60	19.21
South Korea	17.14	17.76	18.60	19.21
China	17.14	17.76	18.60	19.21
Hong Kong	17.14	17.76	18.60	19.21
Taiwan	17.14	17.76	18.60	19.21
Singapore	17.14	17.76	18.60	19.21
Malaysia	17.14	17.76	18.60	19.21
Indonesia	17.14	17.76	18.60	19.21
Philippines	17.14	17.76	18.60	19.21
Thailand	17.14	17.76	18.60	19.21
Vietnam	17.14	17.76	18.60	19.21
Laos	17.14	17.76	18.60	19.21
Cambodia	17.14	17.76	18.60	19.21
Myanmar	17.14	17.76	18.60	19.21
Burma	17.14	17.76	18.60	19.21
Sri Lanka	17.14	17.76	18.60	19.21
Maldives	17.14	17.76	18.60	19.21
Bhutan	17.14	17.76	18.60	19.21
Nepal	17.14	17.76	18.60	19.21
Pakistan	17.14	17.76	18.60	19.21
Afghanistan	17.14	17.76	18.60	19.21
Iran	17.14	17.76	18.60	19.21
Iraq	17.14	17.76	18.60	19.21
Saudi Arabia	17.14	17.76	18.60	19.21
UAE	17.14	17.76	18.60	19.21
Qatar	17.14	17.76	18.60	19.21
Bahrain	17.14	17.76	18.60	19.21
Oman	17.14	17.76	18.60	19.21
Yemen	17.14	17.76	18.60	19.21
Somalia	17.14	17.76	18.60	19.21
Ethiopia	17.14	17.76	18.60	19.21
DRC	17.14	17.76	18.60	19.21
Congo	17.14	17.76	18.60	19.21
Zambia	17.14	17.76	18.60	19.21
Botswana	17.14	17.76	18.60	19.21
Namibia	17.14	17.76	18.60	19.21
South Africa	17.14	17.76	18.60	19.21
Mozambique	17.14	17.76	18.60	19.21
Swaziland	17.14	17.76	18.60	19.21
Lesotho	17.14	17.76	18.60	19.21
Madagascar	17.14	17.76	18.60	19.21
Reunion	17.14	17.76	18.60	19.21
Mayotte	17.14	17.76	18.60	19.21
French Polynesia	17.14	17.76	18.60	19.21

Savannah Fund Managers Ltd CLOOHN				
Savannah Fund Managers Ltd, 10-16 Houndston, St. Leonards, London EC2A 4BA		071 782 0000		
USA	17.14	17.76	18.60	19.21
UK Central Office	17.14	17.76	18.60	19.21
UK Regional Office	17.14	17.76	18.60	19.21
Germany	17.14	17.76	18.60	19.21
France	17.14	17.76	18.60	19.21
Switzerland	17.14	17.76	18.60	19.21
Italy	17.14	17.76	18.60	19.21
Spain	17.14	17.76	18.60	19.21
Portugal	17.14	17.76	18.60	19.21
Belgium	17.14	17.76	18.60	19.21
Netherlands	17.14	17.76	18.60	19.21
Austria	17.14	17.76	18.60	19.21
Sweden	17.14	17.76	18.60	19.21
Denmark	17.14	17.76	18.60	19.21
Finland	17.14	17.76	18.60	19.21
Norway	17.14	17.76	18.60	19.21
Poland	17.14	17.76	18.60	19.21
Czech Republic	17.14	17.76	18.60	19.21
Slovak Republic	17.14	17.76	18.60	19.21
Hungary	17.14	17.76	18.60	19.21
Romania	17.14	17.76	18.60	19.21
Bulgaria	17.14	17.76	18.60	19.21
Greece	17.14	17.76	18.60	19.21
Turkey	17.14	17.76	18.60	19.21
Israel	17.14	17.76	18.60	19.21
Japan	17.14	17.76	18.60	19.21
South Korea	17.14	17.76	18.60	19.21
China	17.14	17.76	18.60	19.21
Hong Kong	17.14	17.76	18.60	19.21
Taiwan	17.14	17.76	18.60	19.21
Singapore	17.14	17.76	18.60	19.21
Malaysia	17.14	17.76	18.60	19.21
Indonesia	17.14	17.76	18.60	19.21
Philippines	17.14	17.76	18.60	19.21
Thailand	17.14	17.76	18.60	19.21
Vietnam	17.14	17.76	18.60	19.21
Laos	17.14	17.76	18.60	19.21
Cambodia	17.14	17.76	18.60	19.21
Myanmar	17.14	17.76	18.60	19.21
Burma	17.14	17.76	18.60	19.21
Sri Lanka	17.14	17.76	18.60	19.21
Maldives	17.14	17.76	18.60	19.21
Bhutan	17.14	17.76	18.60	19.21
Nepal	17.14	17.76	18.60	19.21
Pakistan	17.14	17.76	18.60	19.21
Afghanistan	17.14	17.76	18.60	19.21
Iran	17.14	17.76	18.60	19.21
Iraq	17.14	17.76	18.60	19.21
Saudi Arabia	17.14	17.76	18.60	19.21
UAE	17.14	17.76	18.60	19.21
Qatar	17.14	17.76	18.60	19.21
Bahrain	17.14	17.76	18.60	19.21
Oman	17.14	17.76	18.60	19.21
Yemen	17.14	17.76	18.60	19.21
Somalia	17.14	17.76	18.60	19.21
Ethiopia	17.14	17.76	18.60	19.21
DRC	17.14	17.76	18.60	19.21
Congo	17.14	17.76	18.60	19.21
Zambia	17.14	17.76	18.60	19.21
Botswana	17.14	17.76	18.60	19.21
Namibia	17.14	17.76	18.60	19.21
South Africa	17.14	17.76	18.60	19.21
Mozambique	17.14	17.76	18.60	19.21
Swaziland	17.14	17.76	18.60	19.21
Lesotho	17.14	17.76	18.60	19.21
Madagascar	17.14	17.76	18.60	19.21
Reunion	17.14	17.76	18.60	19.21
Mayotte	17.14	17.76	18.60	19.21
French Polynesia	17.14	17.76	18.60	19.21

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	1999	2000	2001	2002
North America	136.5	131.3	134.0	132.3
U.S.	100.0	97.0	98.0	97.0
Canada	36.5	34.3	36.0	35.3
Europe	100.0	97.0	98.0	97.0
U.K.	36.5	34.3	36.0	35.3
Germany	36.5	34.3	36.0	35.3
France	36.5	34.3	36.0	35.3
Italy	36.5	34.3	36.0	35.3
Spain	36.5	34.3	36.0	35.3
Japan	36.5	34.3	36.0	35.3
China	36.5	34.3	36.0	35.3
India	36.5	34.3	36.0	35.3
South America	36.5	34.3	36.0	35.3
Brazil	36.5	34.3	36.0	35.3
Argentina	36.5	34.3	36.0	35.3
Colombia	36.5	34.3	36.0	35.3
Venezuela	36.5	34.3	36.0	35.3
Peru	36.5	34.3	36.0	35.3
Chile	36.5	34.3	36.0	35.3
Costa Rica	36.5	34.3	36.0	35.3
Guatemala	36.5	34.3	36.0	35.3
Honduras	36.5	34.3	36.0	35.3
Nicaragua	36.5	34.3	36.0	35.3
Panama	36.5	34.3	36.0	35.3
Paraguay	36.5	34.3	36.0	35.3
Uruguay	36.5	34.3	36.0	35.3
Zambia	36.5	34.3	36.0	35.3
Zimbabwe	36.5	34.3	36.0	35.3
South Africa	36.5	34.3	36.0	35.3
Kenya	36.5	34.3	36.0	35.3
Uganda	36.5	34.3	36.0	35.3
Rwanda	36.5	34.3	36.0	35.3
Burundi	36.5	34.3	36.0	35.3
Tanzania	36.5	34.3	36.0	35.3
Malawi	36.5	34.3	36.0	35.3
Mozambique	36.5	34.3	36.0	35.3
Botswana	36.5	34.3	36.0	35.3
Swaziland	36.5	34.3	36.0	35.3
Lesotho	36.5	34.3	36.0	35.3
Namibia	36.5	34.3	36.0	35.3
Angola	36.5	34.3	36.0	35.3
Cape Verde	36.5	34.3	36.0	35.3
Senegal	36.5	34.3	36.0	35.3
Gambia	36.5	34.3	36.0	35.3
Sierra Leone	36.5	34.3	36.0	35.3
Liberia	36.5	34.3	36.0	35.3
Ivory Coast	36.5	34.3	36.0	35.3
Ghana	36.5	34.3	36.0	35.3
Togo	36.5	34.3	36.0	35.3
Benin	36.5	34.3	36.0	35.3
Niger	36.5	34.3	36.0	35.3
Chad	36.5	34.3	36.0	35.3
Sudan	36.5	34.3	36.0	35.3
Ethiopia	36.5	34.3	36.0	35.3
Somalia	36.5	34.3	36.0	35.3
Kenya	36.5	34.3	36.0	35.3
Uganda	36.5	34.3	36.0	35.3
Rwanda	36.5	34.3	36.0	35.3
Burundi	36.5	34.3	36.0	35.3
Tanzania	36.5	34.3	36.0	35.3
Malawi	36.5	34.3	36.0	35.3
Mozambique	36.5	34.3	36.0	35.3
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Senegal	36.5	34.3	36.0	35.3
Gambia	36.5	34.3	36.0	35.3
Sierra Leone	36.5	34.3	36.0	35.3
Liberia	36.5	34.3	36.0	35.3
Ivory Coast	36.5	34.3	36.0	35.3
Ghana	36.5	34.3	36.0	35.3
Togo	36.5	34.3	36.0	35.3
Benin	36.5	34.3	36.0	35.3
Niger	36.5	34.3	36.0	35.3
Chad	36.5	34.3	36.0	35.3
Sudan	36.5	34.3	36.0	35.3
Ethiopia	36.5	34.3	36.0	35.3
Somalia	36.5	34.3	36.0	35.3

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Sears Roebuck Unit 12100000			
	12/1	12/2	12/3
12/1	12/2	12/3	12/4
12/5	12/6	12/7	12/8
12/9	12/10	12/11	12/12
12/13	12/14	12/15	12/16
12/17	12/18	12/19	12/20
12/21	12/22	12/23	12/24
12/25	12/26	12/27	12/28
12/29	12/30	12/31	12/32
12/33	12/34	12/35	12/36
12/37	12/38	12/39	12/40
12/41	12/42	12/43	12/44
12/45	12/46	12/47	12/48
12/49	12/50	12/51	12/52
12/53	12/54	12/55	12/56
12/57	12/58	12/59	12/60
12/61	12/62	12/63	12/64
12/65	12/66	12/67	12/68
12/69	12/70	12/71	12/72
12/73	12/74	12/75	12/76
12/77	12/78	12/79	12/80
12/81	12/82	12/83	12/84
12/85	12/86	12/87	12/88
12/89	12/90	12/91	12/92
12/93	12/94	12/95	12/96
12/97	12/98	12/99	12/100

Sears Roebuck Unit 12100000			
	12/1	12/2	12/3
12/1	12/2	12/3	12/4
12/5	12/6	12/7	12/8
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12/13	12/14	12/15	12/16
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12/21	12/22	12/23	12/24
12/25	12/26	12/27	12/28
12/29	12/30	12/31	12/32
12/33	12/34	12/35	12/36
12/37	12/38	12/39	12/40
12/41	12/42	12/43	12/44
12/45	12/46	12/47	12/48
12/49	12/50	12/51	12/52
12/53	12/54	12/55	12/56
12/57	12/58	12/59	12/60
12/61	12/62	12/63	12/64
12/65	12/66	12/67	12/68
12/69	12/70	12/71	12/72
12/73	12/74	12/75	12/76
12/77	12/78	12/79	12/80
12/81	12/82	12/83	12/84
12/85	12/86	12/87	12/88
12/89	12/90	12/91	12/92
12/93	12/94	12/95	12/96
12/97	12/98	12/99	12/100

Sears Roebuck Unit 12100000			
	12/1	12/2	12/3
12/1	12/2	12/3	12/4
12/5	12/6	12/7	12/8
12/9	12/10	12/11	12/12
12/13	12/14	12/15	12/16
12/17	12/18	12/19	12/20
12/21	12/22	12/23	12/24
12/25	12/26	12/27	12/28
12/29	12/30	12/31	12/32
12/33	12/34	12/35	12/36
12/37	12/38	12/39	12/40
12/41	12/42	12/43	12/44
12/45	12/46	12/47	12/48
12/49	12/50	12/51	12/52
12/53	12/54	12/55	12/56
12/57	12/58	12/59	12/60
12/61	12/62	12/63	12/64
12/65	12/66	12/67	12/68
12/69	12/70	12/71	12/72
12/73	12/74	12/75	12/76
12/77	12/78	12/79	12/80
12/81	12/82	12/83	12/84
12/85	12/86	12/87	12/88
12/89	12/90	12/91	12/92
12/93	12/94	12/95	12/96
12/97	12/98	12/99	12/100

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CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Dollar up on economic hopes

THE DOLLAR improved after Mr Robert Mischosky, US commerce secretary, told a conference in Kansas City that he believes the US recession has bottomed out and that the economy may begin to turn around during the summer.

He added that the Federal Reserve should cut its discount rate again to boost the economy, but the implications of Mr Mischosky's call for a further reduction in US rates had no adverse impact on the dollar.

In New York the Fed refrained from operations on the money market, as Federal funds traded at 5 1/2 per cent, slightly below the assumed target rate of 5 1/4 per cent.

Trading was generally quiet on the foreign exchanges, with the shock waves from last week's decision by Sweden to end the krona's link to a dollar weighted basket gradually fading away.

At the London close the dollar had improved to DM1.7215 from DM1.7115; to Y138.00 from Y137.40; to Sfr1.4595 from Sfr1.4480; and to FF5.8450 from FF5.8075. On Bank of England figures the dollar's index rose to 68.1 from 68.0.

Sterling replaced the Italian lira as the second strongest member of the European exchange rate mechanism.

according to figures from the European Commission. The pound was little changed however, apart from weakening against the dollar in line with other ERM currencies.

A fall in UK gross domestic product for the third successive quarter had virtually no impact. A decline of 0.8 per cent in the first quarter of 1991 resulted in a year-on-year fall of 2.5 per cent. This was in line with expectations, leaving the market to wait for to-day's UK trade figures.

A visible trade deficit of around £300m has been forecast for April, with invisible transactions reducing this figure by about £500m, to give a current account shortfall of £200m.

Today's comments by Mr John Major, the UK prime minister, were shrugged off by the pound. He told guests at a CBI dinner that there will be a secure but not dramatic recovery.

in the British economy in the second half of this year. The prime minister refused to be drawn on the timing of the next cut in UK bank base rates, but repeated that fighting inflation is his top priority.

Sterling fell 1 cent to \$1.7265. It also eased to Y238.25 from Y238.50, but was unchanged at DM2.9725, while rising to FF10.0925 from FF10.0850 and to Sfr2.5200 from Sfr2.5150. The pound's index lost 0.1 to 91.9.

The Spanish peseta remained the strongest ERM currency, hovering around its ceiling against the weakest placed French franc. This led to speculation that the Bank of Spain may cut its money market intervention rate, the main instrument of monetary policy, from 12 1/2 per cent at today's repurchase agreement tender. The last reduction was on May 16.

EMS EUROPEAN CURRENCY UNIT RATES					
Currency	Unit	% Change	% Spread	Overnight	Indicator
Spanish Peseta	166.63	0.00	0.00	0.00	0.00
Italian Lira	2036.34	0.00	0.00	0.00	0.00
French Franc	6.55	0.00	0.00	0.00	0.00
German Mark	2.36	0.00	0.00	0.00	0.00
British Pound	0.79	0.00	0.00	0.00	0.00
Swedish Krona	4.66	0.00	0.00	0.00	0.00
Portuguese Escudo	200.48	0.00	0.00	0.00	0.00
Irish Punt	0.78	0.00	0.00	0.00	0.00
Belgian Franc	36.36	0.00	0.00	0.00	0.00
Dutch Guilder	2.36	0.00	0.00	0.00	0.00
Austrian Schilling	13.76	0.00	0.00	0.00	0.00
Swiss Franc	2.00	0.00	0.00	0.00	0.00
Japanese Yen	136	0.00	0.00	0.00	0.00

Unit rates set by the European Commission. Currencies are in descending order of strength. Percentage changes are for the day's closing rates against the unit of account, the European Currency Unit (ECU). The percentage change in the ECU rate is shown in parentheses.

Percentages shown in parentheses are for the day's closing rates against the unit of account, the European Currency Unit (ECU). The percentage change in the ECU rate is shown in parentheses.

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Percentages shown in parentheses are for the day's closing rates against the unit of account, the European Currency Unit (ECU). The percentage change in the ECU rate is shown in parentheses.

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Percentages shown in parentheses are for the day's closing rates against the unit of account, the European Currency Unit (ECU). The percentage change in the ECU rate is shown in parentheses.

Percentages shown in parentheses are for the day's closing rates against the unit of account, the European Currency Unit (ECU). The percentage change in the ECU rate is shown in parentheses.

FINANCIAL FUTURES AND OPTIONS

LIVE LONG GILT FUTURES OPTIONS					
Strike	Call	Put	Call	Put	Call
100	0.00	0.00	0.00	0.00	0.00
101	0.00	0.00	0.00	0.00	0.00
102	0.00	0.00	0.00	0.00	0.00
103	0.00	0.00	0.00	0.00	0.00
104	0.00	0.00	0.00	0.00	0.00
105	0.00	0.00	0.00	0.00	0.00
106	0.00	0.00	0.00	0.00	0.00
107	0.00	0.00	0.00	0.00	0.00
108	0.00	0.00	0.00	0.00	0.00
109	0.00	0.00	0.00	0.00	0.00
110	0.00	0.00	0.00	0.00	0.00
111	0.00	0.00	0.00	0.00	0.00
112	0.00	0.00	0.00	0.00	0.00
113	0.00	0.00	0.00	0.00	0.00
114	0.00	0.00	0.00	0.00	0.00
115	0.00	0.00	0.00	0.00	0.00
116	0.00	0.00	0.00	0.00	0.00
117	0.00	0.00	0.00	0.00	0.00
118	0.00	0.00	0.00	0.00	0.00
119	0.00	0.00	0.00	0.00	0.00
120	0.00	0.00	0.00	0.00	0.00
121	0.00	0.00	0.00	0.00	0.00
122	0.00	0.00	0.00	0.00	0.00
123	0.00	0.00	0.00	0.00	0.00
124	0.00	0.00	0.00	0.00	0.00
125	0.00	0.00	0.00	0.00	0.00
126	0.00	0.00	0.00	0.00	0.00
127	0.00	0.00	0.00	0.00	0.00
128	0.00	0.00	0.00	0.00	0.00
129	0.00	0.00	0.00	0.00	0.00
130	0.00	0.00	0.00	0.00	0.00
131	0.00	0.00	0.00	0.00	0.00
132	0.00	0.00	0.00	0.00	0.00
133	0.00	0.00	0.00	0.00	0.00
134	0.00	0.00	0.00	0.00	0.00
135	0.00	0.00	0.00	0.00	0.00
136	0.00	0.00	0.00	0.00	0.00
137	0.00	0.00	0.00	0.00	0.00
138	0.00	0.00	0.00	0.00	0.00
139	0.00	0.00	0.00	0.00	0.00
140	0.00	0.00	0.00	0.00	0.00
141	0.00	0.00	0.00	0.00	0.00
142	0.00	0.00	0.00	0.00	0.00
143	0.00	0.00	0.00	0.00	0.00
144	0.00	0.00	0.00	0.00	0.00
145	0.00	0.00	0.00	0.00	0.00
146	0.00	0.00	0.00	0.00	0.00
147	0.00	0.00	0.00	0.00	0.00
148	0.00	0.00	0.00	0.00	0.00
149	0.00	0.00	0.00	0.00	0.00
150	0.00	0.00	0.00	0.00	0.00
151	0.00	0.00	0.00	0.00	0.00
152	0.00	0.00	0.00	0.00	0.00
153	0.00	0.00	0.00	0.00	0.00
154	0.00	0.00	0.00	0.00	0.00
155	0.00	0.00	0.00	0.00	0.00
156	0.00	0.00	0.00	0.00	0.00
157	0.00	0.00	0.00	0.00	0.00
158	0.00	0.00	0.00	0.00	0.00
159	0.00	0.00	0.00	0.00	0.00
160	0.00	0.00	0.00	0.00	0.00
161	0.00	0.00	0.00	0.00	0.00
162	0.00	0.00	0.00	0.00	0.00
163	0.00	0.00	0.00	0.00	0.00
164	0.00	0.00	0.00	0.00	0.00
165	0.00	0.00	0.00	0.00	0.00
166	0.00	0.00	0.00	0.00	0.00
167	0.00	0.00	0.00	0.00	0.00
168	0.00	0.00	0.00	0.00	0.00
169	0.00	0.00	0.00	0.00	0.00
170	0.00	0.00	0.00	0.00	0.00
171	0.00	0.00	0.00	0.00	0.00
172	0.00	0.00	0.00	0.00	0.00
173	0.00	0.00	0.00	0.00	0.00
174	0.00	0.00	0.00	0.00	0.00
175	0.00	0.00	0.00	0.00	0.00
176	0.00	0.00	0.00	0.00	0.00
177	0.00	0.00	0.00	0.00	0.00
178	0.00	0.00	0.00	0.00	0.00
179	0.00	0.00	0.00	0.00	0.00
180	0.00	0.00	0.00	0.00	0.00
181	0.00	0.00	0.00	0.00	0.00
182	0.00	0.00	0.00	0.00	0.00
183	0.00	0.00	0.00	0.00	0.00
184	0.00	0.00	0.00	0.00	0.00
185	0.00	0.00	0.00	0.00	0.00
186	0.00	0.00	0.00	0.00	0.00
187	0.00	0.00	0.00	0.00	0.00
188	0.00	0.00	0.00	0.00	0.00
189	0.00	0.00	0.00	0.00	0.00

[illegible]

CANADA

Sales	Stock	High	Low	Close	Chng	Sales	Stock	High	Low	Close	Chng	Sales	Stock	High	Low	Close	Chng
TORONTO																	
3:00 pm prices May 22																	
Quotations in cents unless marked \$																	
12400 Alkafit Pl	89 1/2	15 1/2	15 1/2	15 1/2	+	30000 Gossling	230	230	230	230	+	30000 Gossling	230	230	230	230	+
12500 Alkafit Pl	89 1/2	15 1/2	15 1/2	15 1/2	+	341000 Gossling	230	230	230	230	+	341000 Gossling	230	230	230	230	+
12500 Alkafit Pl	89 1/2	15 1/2	15 1/2	15 1/2	+	35000 Gossling	230	230	230	230	+	35000 Gossling	230	230	230	230	+
12500 Alkafit Pl	89 1/2	15 1/2	15 1/2	15 1/2	+	35000 Gossling	230	230	230	230	+	35000 Gossling	230	230	230	230	+
12500 Alkafit Pl	89 1/2	15 1/2	15 1/2	15 1/2	+	35000 Gossling	230	230	230	230	+	35000 Gossling	230	230	230	230	+
12500 Alkafit Pl	89 1/2	15 1/2	15 1/2	15 1/2	+	35000 Gossling	230	230	230	230	+	35000 Gossling	230	230	230	230	+
12500 Alkafit Pl	89 1/2	15 1/2	15 1/2	15 1/2	+	35000 Gossling	230	230	230	230	+	35000 Gossling	230	230	230	230	+
12500 Alkafit Pl	89 1/2	15 1/2	15 1/2	15 1/2	+	35000 Gossling	230	230	230	230	+	35000 Gossling	230	230	230	230	+
12500 Alkafit Pl	89 1/2	15 1/2	15 1/2	15 1/2	+	35000 Gossling	230	230	230	230	+	35000 Gossling	230	230	230	230	+
12500 Alkafit Pl	89 1/2	15 1/2	15 1/2	15 1/2	+	35000 Gossling	230	230	230	230	+	35000 Gossling	230	230	230	230	+
12500 Alkafit Pl	89 1/2	15 1/2	15 1/2	15 1/2	+	35000 Gossling	230	230	230	230	+	35000 Gossling	230	230	230	230	+
12500 Alkafit Pl	89 1/2	15 1/2	15 1/2	15 1/2	+	35000 Gossling	230	230	230	230	+	35000 Gossling	230	230	230	230	+
12500 Alkafit Pl	89 1/2	15 1/2	15 1/2	15 1/2	+	35000 Gossling	230	230	230	230	+	35000 Gossling	230	230	230	230	+
12500 Alkafit Pl	89 1/2	15 1/2	15 1/2	15 1/2	+	35000 Gossling	230	230	230	230	+	35000 Gossling	230	230	230	230	+
12500 Alkafit Pl	89 1/2	15 1/2	15 1/2	15 1/2	+	35000 Gossling	230	230	230	230	+	35000 Gossling	230	230	230	230	+
12500 Alkafit Pl	89 1/2	15 1/2	15 1/2	15 1/2	+	35000 Gossling	230	230	230	230	+	35000 Gossling	230	230	230	230	+
12500 Alkafit Pl	89 1/2	15 1/2	15 1/2	15 1/2	+	35000 Gossling	230	230	230	230	+	35000 Gossling	230	230	230	230	+
12500 Alkafit Pl	89 1/2	15 1/2	15 1/2	15 1/2	+	35000 Gossling	230	230	230	230	+	35000 Gossling	230	230	230	230	+
12500 Alkafit Pl	89 1/2	15 1/2	15 1/2	15 1/2	+	35000 Gossling	230	230	230	230	+	35000 Gossling	230	230	230	230	+
12500 Alkafit Pl	89 1/2	15 1/2	15 1/2	15 1/2	+	35000 Gossling	230	230	230	230	+	35000 Gossling	230	230	230	230	+

POWER GENERATION EQUIPMENT

The FT proposes to publish this survey on

June 12th 1991.
The FT is read by 54% of Chief Executives in Europe's top 2000 companies. If you want to reach this important audience, call Philip Dodson on 071 873 3389 or fax 071 873 3062

Data source: Chief Executives in Europe 1990

FT SURVEYS

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REST OF POLAND

DAY B

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in Warsaw
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or Andrew Taylor in Frankfurt
Phone 49 - 69 - 7598118
Fax 49 - 69 - 722677

FINANCIAL TIMES

NASDAQ NATIONAL MARKET

3:15 am prices May 22

Stock	PV	5	10	15	20	25	30	35	40	45	50	55	60	65	70	75	80	85	90	95	100	105	110	115	120	125	130	135	140	145	150	155	160	165	170	175	180	185	190	195	200	205	210	215	220	225	230	235	240	245	250	255	260	265	270	275	280	285	290	295	300	305	310	315	320	325	330	335	340	345	350	355	360	365	370	375	380	385	390	395	400	405	410	415	420	425	430	435	440	445	450	455	460	465	470	475	480	485	490	495	500	505	510	515	520	525	530	535	540	545	550	555	560	565	570	575	580	585	590	595	600	605	610	615	620	625	630	635	640	645	650	655	660	665	670	675	680	685	690	695	700	705	710	715	720	725	730	735	740	745	750	755	760	765	770	775	780	785	790	795	800	805	810	815	820	825	830	835	840	845	850	855	860	865	870	875	880	885	890	895	900	905	910	915	920	925	930	935	940	945	950	955	960	965	970	975	980	985	990	995	1000	1005	1010	1015	1020	1025	1030	1035	1040	1045	1050	1055	1060	1065	1070	1075	1080	1085	1090	1095	1100	1105	1110	1115	1120	1125	1130	1135	1140	1145	1150	1155	1160	1165	1170	1175	1180	1185	1190	1195	1200	1205	1210	1215	1220	1225	1230	1235	1240	1245	1250	1255	1260	1265	1270	1275	1280	1285	1290	1295	1300	1305	1310	1315	1320	1325	1330	1335	1340	1345	1350	1355	1360	1365	1370	1375	1380	1385	1390	1395	1400	1405	1410	1415	1420	1425	1430	1435	1440	1445	1450	1455	1460	1465	1470	1475	1480	1485	1490	1495	1500	1505	1510	1515	1520	1525	1530	1535	1540	1545	1550	1555	1560	1565	1570	1575	1580	1585	1590	1595	1600	1605	1610	1615	1620	1625	1630	1635	1640	1645	1650	1655	1660	1665	1670	1675	1680	1685	1690	1695	1700	1705	1710	1715	1720	1725	1730	1735	1740	1745	1750	1755	1760	1765	1770	1775	1780	1785	1790	1795	1800	1805	1810	1815	1820	1825	1830	1835	1840	1845	1850	1855	1860	1865	1870	1875	1880	1885	1890	1895	1900	1905	1910	1915	1920	1925	1930	1935	1940	1945	1950	1955	1960	1965	1970	1975	1980	1985	1990	1995	2000	2005	2010	2015	2020	2025	2030	2035	2040	2045	2050	2055	2060	2065	2070	2075	2080	2085	2090	2095	2100	2105	2110	2115	2120	2125	2130	2135	2140	2145	2150	2155	2160	2165	2170	2175	2180	2185	2190	2195	2200	2205	2210	2215	2220	2225	2230	2235	2240	2245	2250	2255	2260	2265	2270	2275	2280	2285	2290	2295	2300	2305	2310	2315	2320	2325	2330	2335	2340	2345	2350	2355	2360	2365	2370	2375	2380	2385	2390	2395	2400	2405	2410	2415	2420	2425	2430	2435	2440	2445	2450	2455	2460	2465	2470	2475	2480	2485	2490	2495	2500	2505	2510	2515	2520	2525	2530	2535	2540	2545	2550	2555	2560	2565	2570	2575	2580	2585	2590	2595	2600	2605	2610	2615	2620	2625	2630	2635	2640	2645	2650	2655	2660	2665	2670	2675	2680	2685	2690	2695	2700	2705	2710	2715	2720	2725	2730	2735	2740	2745	2750	2755	2760	2765	2770	2775	2780	2785	2790	2795	2800	2805	2810	2815	2820	2825	2830	2835	2840	2845	2850	2855	2860	2865	2870	2875	2880	2885	2890	2895	2900	2905	2910	2915	2920	2925	2930	2935	2940	2945	2950	2955	2960	2965	2970	2975	2980	2985	2990	2995	3000	3005	3010	3015	3020	3025	3030	3035	3040	3045	3050	3055	3060	3065	3070	3075	3080	3085	3090	3095	3100	3105	3110	3115	3120	3125	3130	3135	3140	3145	3150	3155	3160	3165	3170	3175	3180	3185	3190	3195	3200	3205	3210	3215	3220	3225	3230	3235	3240	3245	3250	3255	3260	3265	3270	3275	3280	3285	3290	3295	3300	3305	3310	3315	3320	3325	3330	3335	3340	3345	3350	3355	3360	3365	3370	3375	3380	3385	3390	3395	3400	3405	3410	3415	3420	3425	3430	3435	3440	3445	3450	3455	3460	3465	3470	3475	3480	3485	3490	3495	3500	3505	3510	3515	3520	3525	3530	3535	3540	3545	3550	3555	3560	3565	3570	3575	3580	3585	3590	3595	3600	3605	3610	3615	3620	3625	3630	3635	3640	3645	3650	3655	3660	3665	3670	3675	3680	3685	3690	3695	3700	3705	3710	3715	3720	3725	3730	3735	3740	3745	3750	3755	3760	3765	3770	3775	3780	3785	3790	3795	3800	3805	3810	3815	3820	3825	3830	3835	3840	3845	3850	3855	3860	3865	3870	3875	3880	3885	3890	3895	3900	3905	3910	3915	3920	3925	3930	3935	3940	3945	3950	3955	3960	3965	3970	3975	3980	3985	3990	3995	4000	4005	4010	4015	4020	4025	4030	4035	4040	4045	4050	4055	4060	4065	4070	4075	4080	4085	4090	4095	4100	4105	4110	4115	4120	4125	4130	4135	4140	4145	4150	4155	4160	4165	4170	4175	4180	4185	4190	4195	4200	4205	4210	4215	4220	4225	4230	4235	4240	4245	4250	4255	4260	4265	4270	4275	4280	4285	4290	4295	4300	4305	4310	4315	4320	4325	4330	4335	4340	4345	4350	4355	4360	4365	4370	4375	4380	4385	4390	4395	4400	4405	4410	4415	4420	4425	4430	4435	4440	4445	4450	4455	4460	4465	4470	4475	4480	4485	4490	4495	4500	4505	4510	4515	4520	4525	4530	4535	4540	4545	4550	4555	4560	4565	4570	4575	4580	4585	4590	4595	4600	4605	4610	4615	4620	4625	4630	4635	4640	4645	4650	4655	4660	4665	4670	4675	4680	4685	4690	4695	4700	4705	4710	4715	4720	4725	4730	4735	4740	4745	4750	4755	4760	4765	4770	4775	4780	4785	4790	4795	4800	4805	4810	4815	4820	4825	4830	4835	4840	4845	4850	4855	4860	4865	4870	4875	4880	4885	4890	4895	4900	4905	4910	4915	4920	4925	4930	4935	4940	4945	4950	4955	4960	4965	4970	4975	4980	4985	4990	4995	5000	5005	5010	5015	5020	5025	5030	5035	5040	5045	5050	5055	5060	5065	5070	5075	5080	5085	5090	5095	5100	5105	5110	5115	5120	5125	5130	5135	5140	5145	5150	5155	5160	5165	5170	5175	5180	5185	5190	5195	5200	5205	5210	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3:00 pm prices May 22

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Data sources: Chief Executives in Europe 1990 & EPRS 1989

FT SURVEYS

[illegible]

AMERICA

Technology stocks firm as other equities idle

Wall Street

ALTHOUGH technology stocks bounced back from Tuesday's declines, the equity market idled just below opening values yesterday morning in moderate trading, writes Patrick Harverson in New York.

At 1pm the Dow Jones Industrial Average was down 3.01 at 2,904.07. The broader-based Standard & Poor's 500 slumped in similar fashion, gaining just 0.01 to 375.54 by 1pm. The Nasdaq composite of over-the-counter issues, however, was in better form, rising 3.11 to 486.71. Turnover on the New York SE was 99m shares by 1pm, while declining stocks outnumbered advancing stocks by 752 to 641.

In the absence of fresh economic data, and with bond prices little changed, a stock market lacked a firm direction yesterday, and the Dow appeared to be stuck in a narrow trading range between 2,890 and 2,920.

IBM, which fell late on Tuesday after several analysts released negative comments on the stock, bounced back 2 1/2 to 103.3 on turnover of almost 1m shares. Other technology stocks were also firmer with

Compaq up 1/4 at \$37, Digital Equipment up 1/4 at \$63, and Hewlett-Packard 1/4 higher at \$49.

Secondary technology issues moved in a similar fashion. Apple rose 1/4 to \$45, and Microsoft gained 3/4 at \$106. Intel advanced 1/4 to \$48 on turnover of 3.1m shares after the Oregon-based company said that its business outlook was still excellent, and that its second quarter results were likely to exceed analysts' expectations.

LA Gear rose in early trading on news that it had hired Merrill Lynch, the brokerage house, to explore options that include the possible sale of a substantial stake in the company. However, as profit-takers moved in, the stock fell back to \$11 1/2 down 1/4.

Federal Express rose 3/4 to \$36 1/2 after the company said that it was discussing the sale of its inland shipping and trucking divisions in Germany and Holland to a Dutch buyer. Blockbuster fell 1/4 to \$8 1/2 after the video-store chain confirmed that it will earn between 50 cents and 60 cents a share in 1991, but warned that it was too early to begin paying dividends to shareholders.

Among over-the-counter

stocks, Rose's Stores plummeted 3/4 to \$24 on reports that several credit agencies had advised clients to halt shipments to the chain. Yesterday it reported a loss of 3 cents a share in the first quarter of 1991, against a gain of 11 cents a share a year earlier.

New Line Cinema, which is quoted on the American Stock Exchange, fell 1/4 to \$10 1/2 on news that the movie production company will earn considerably less from the second Teenage Mutant Ninja Turtle movie than it did on the first.

Canada

TORONTO stocks fell at midday in thin trading, the composite index closing 5.7 lower at 3,442.0. Declines led advances by 196 to 178 on volume of 12.5m shares.

Laidlaw's 1/4 down to \$25.00 on volume of 25,000 shares on continued concern over the clean-up costs at the company's Mercier, Quebec, hazardous waste site.

Bank shares continued to be among the market's best performers, rising after the remainder of Canada's big six banks cut their prime rates to 9.75 per cent to match the Bank of Montreal.

EUROPE

Deutsche Bank helps Frankfurt to 1991 high

AS the UK moved from confidence to gloom yesterday, international investors' attention moved to Germany which has lagged behind most of Europe this year. However, there were domestic questions about the quality and the durability of Frankfurt's flurry, writes Our Markets Staff.

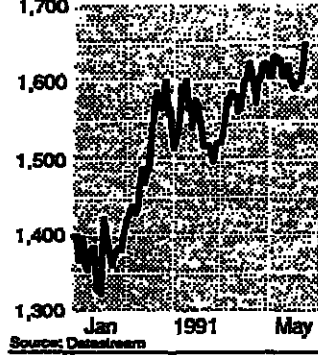
FRANKFURT saw remarkable performances from Deutsche Bank, chemicals, builders and cars as its key indices hit new highs for 1991. The FAZ index rose 13.39 to 695.18 at mid-session and the DAX closed 30.25 higher at 1,647.69.

Volume jumped from DM2.6bn to DM11.4bn with DM2.1bn of that in Deutsche, which rose DM13.60 to DM576.60 on hopes that it will disclose a 20 to 30 per cent jump in first quarter operating profits at today's shareholders meeting. Banks and chemicals, where Bayer led with a DM8.70 rise to DM258.70, were also being bought for dividends which are about to be paid.

In construction, Bilfinger & Berger went ex rights and closed a net DM30 higher at DM910, following a revision of Tuesday's closing price, and Philip Holzmann ended DM63 better at DM1,525. After the close, economics minister Jürgen Möllemann said German companies will get 60 per cent

Germany

DAX Index



Source: Deutschemark

of the contracts to build the first batch of homes for Soviet troops leaving east Germany.

In carmakers, Daimler rose DM10 to DM171.50 but Mercedes Holding, which owns 25.23 per cent of Daimler, put on DM12.50 or more than 2 per cent to DM577.50. Changes in tax law have fuelled speculation that group shareholdings will be rationalised, which could lead to Mercedes being bought out. Volkswagen, the sector's underperformer, rose DM5.10 to DM574.50 and BMW, who do most of their business in the US, rose DM2 to DM563.50.

MILAN was lifted by Fiat's decision to maintain its dividend, which pleased its army

FT-SE Eurotrack 100 - May 22

Hourly changes				
Open	10 am	11 am	Noon	1 pm
1130.44	1130.51	1130.65	1132.25	1132.61
				1132.65
				1131.74
Day's Low				
May 21	May 20	May 17	May 16	May 15
1123.75	1123.04	1116.61	1112.68	1109.43

Base Value 100 (20/1/1988)

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